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Vietnam
Affordable Housing
A Way Forward

October 2015

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Glossary of Abbreviations

ACCA	Asian Coalition for Community Action
ADB	Asian Development Bank
AFD	French Agency for Development
BOLUC	Building Ownership and Land Use Right Certificate
BOT	Build-Operate-Transfer
BT	Build-Transfer
CAGR	Compound Annual Growth Rate
CAM	Constant Amortization Method
CDF	Cities Development Fund
CDIA	City Development Initiative for Asia
CG	Central Government
CIDCO	City and Industrial Development Corporation
CPF	Central Provident Fund
CRA	Commonwealth Rental Assistance
CRU	Community Residential Units
CSP	Commercial Sector Produced
CSC	Central Steering Committee on Housing and Real Estate Market Policy
DFI	Development Finance Institutions
DoC	Department of Construction
DTI	Debt to Income
EMI	Equated Monthly Installments
FDI	Foreign Direct Investment
FMR	Fair Market Rent
GHB	Government Housing Bank
GoV	Government of Vietnam
GSO	General Statistics Office
HBEE	Home-Based Economic Enterprises
HCA	Homes and Communities Agency
HOA	Home-Owners' Association
HCMC	Ho Chi Minh City
HDB	Housing and Development Board
HOREA	Ho Chi Minh Real Estate Association
IMF	International Monetary Fund
IZ	Inclusionary Zoning
LG	Local Government
LGAF	Land Governance Assessment Framework
LHDF	Local Housing Development Fund
LIHTC	Low Income Housing Tax Credit
LDIF	Local Development Investment Fund
LPLR	Land Pooling and Land Readjustment

LTV	Loan-to-Value
LURC	Land Use Rights Certificate
LVT	Land Value Taxation
MFI	Microfinance Institution
MoC	Ministry of Construction
MoET	Ministry of Education and Training
MoF	Ministry of Finance
MoHA	Ministry of Home Affairs
MoJ	Ministry of Justice
MoLISA	Ministry of Labor, Invalids, and Social Affairs
MoNRE	Ministry of Natural Resources and Environment
MoT	Ministry of Transport
MPI	Ministry of Planning and Investment
NASHO	National Association of Social Housing Organizations
NGO	Non-Governmental Organization
NHA	National Housing Agency
NPLs	Non-Performing Loans
NSC	National Steering Committee
ODA	Overseas Development Assistance
PC	People's Committee
PCF	People Credit Funds
PPC	Provincial People's Committee
PPP	Public-PrivatePartnership
RDA/RDAs	Redevelopment Authority/ Redevelopment Areas
RFP	Request for Proposal
RIR	Residual Income Ratio
SALGA	South Africa Local Government Authority
SBV	State Bank of Vietnam
SHRA	Social Housing Regulatory Authority
SOE	State-Owned Enterprise
SPPI	Savills Property Price Index
TDR	Transferable Development Rights
ULIHs	Urban Low income Households
URA	Urban Renewal Authorities
USAID	United States Agency for International Development
VAMC	Vietnam Asset Management Company
VBSP	Vietnam Bank of Social Policy
VDB	Vietnam Development Bank
VHLSS	Vietnam Household Living Standards Survey
VUUP	Vietnam Urban Upgrading Project
WEDS	Women's Economic Development Society
WU	Women's Union

Executive Summary

A. Summary

Affordable housing will be instrumental to helping Vietnam achieve its goals for increasing productivity and inclusive urban growth. Since Doi Moi, the country has experienced impressive economic growth, averaged at 7.4 percent per annum from 1990 to 2008, lowering to an average of 6 percent per annum from 2007 to 2013. Strong economic growth has supported a substantial reduction in poverty, from 58 percent in 1993 to 17 percent in 2012[1]. Yet, the country has remained largely rural, with more than half of its population working in the agricultural sector, which only contributed 17 percent of GDP in 2014[2]. In some countries, urbanization has been used as a tool to accelerate economic growth and poverty reduction. As Vietnam aims to maintain a high growth rate, supporting urbanization, where cities contribute a growing share of jobs and GDP, will be an important measure. This structural shift will drive population growth and new demand for housing in cities, for which quality and affordable housing options in well-serviced and connected settlements will be needed.

There is an opportunity now for government to consolidate and refocus efforts in the housing sector. Vietnam has gone through several phases of housing policy. Prior to 1988, the formal housing sector was managed through central planning, which shifted to a reliance on market systems following the Doi Moi reforms. This has led to tremendous growth in the housing sector, particularly in the high-end segment for both the supply and demand sides. Yet, a market-based approach largely has not delivered housing solutions accessible to the poor or near-poor. Growth spurred by FDI investment and speculation led to significant home price increases in the high-end segment that eventually resulted in a real estate bubble from 2009-2012. The 30 trillion stimulus package has helped to reorient developers and lenders toward the affordable middle income housing sector with real home ownership needs, yet at a high fiscal cost to the government. After these years of crisis, there is an opportunity now to enter a new phase of housing policy, which is focused on better management of market vulnerabilities, more efficient public spending and affordability for the lowest income.

The 2015 Housing Law sets the framework for reform in the housing sector. Areas of particular importance in the Law is support toward self-built housing, the active participation of the private sector, addressing the shortage of affordable rental housing as well as high demand for housing from low income groups, especially workers in industrial zones of large cities. This report, which includes a comprehensive assessment and roadmap for affordable housing in Vietnam, recommends the following key messages moving forward:

1. **Increase Investment:** Consolidate and increase housing sector funding in a sustainable way to meet national housing objectives, targeting the lowest two income quintiles and high growth cities, where the need for housing is most urgent.

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[1] World Bank. Taking Stock: An Update on Vietnam's Recent Economic Developments. December 2014.

[2] McCaig, B. Pavcnik, P. Moving Out of Agriculture: Structural Change in Vietnam. 2013.

2. **Prepare Three Flagship Initiatives under an umbrella National Affordable Housing Program:** Develop a new generation of interventions in the housing sector and cultivate capable delivery actors, focused on efficient use of public funds and solutions catered to the bottom 40 percent of the population. These include:

   Initiative One. Housing Finance Assistance: Develop specialized housing finance products for formal and informal low-income households and shift to mortgage-linked subsidies to enhance affordability for the middle-class in a more cost-effective way.

   Initiative Two. Affordable Rental Housing: Increase private sector provision of affordable rental housing through a capital subsidy program targeting industrial workers and low income urban residents.

   Initiative Three. Starter Homes: Deliver core housing units that are incrementally expandable for the lowest income households in new urban, peri-urban and rural areas.

3. **Undertake Two Structural Reforms:** To effectively manage the housing sector, undertake two priority reforms, which ensure good coordination, cost recovery and long-term sustainability of policy initiatives.

   Reform One. Institutional Strengthening: Work towards strengthening an over-arching housing and real estate sector coordinating body, to prepare policy and programs, channel subsidies and to support local governments into becoming effective executing agents.

   Reform Two. Land Tax Reform: Make progressive adjustments in the land taxation framework to support local governments with additional local revenues for project funding and to allow better management of land markets.

4. **Create an Enabling Environment for Affordable Housing:** Invest in a suite of activities into the medium-term for strengthening housing sector governance and development of the affordable housing sector. This includes putting in place the building blocks of a functioning housing market, including real estate information systems, a common targeting framework, and strengthening M&E, as well as design of supporting regulatory or administrative reforms and new initiatives in priority action areas.

Moving forward, design of the market-oriented measures described above will require intensive and careful consultation and engagement with all housing sector actors, particularly the private sector. Private sector will need to play an active role in the early preparation to ensure their participation and commitment that carries through to implementation of policy measures on the financing and supply side.

B. Sector Assessment

Despite economic growth, Vietnam still has a substantial deficit of quality housing. Today, almost 20 percent (approximately 4.8 million households) of Vietnam's 24.2 million households live in poor conditions. Population growth and urbanization have exceeded the government's ability to ensure its citizens have access to safe and affordable housing. The share of the urban population is expected to reach 50 percent by 2040 as Vietnam continues to promote industrialization as a means to facilitate economic growth and poverty reduction. This will mean that an estimated 374,000 additional units are needed in cities annually, with the number of urban households projected to increase to 10.1 million in 2020 (from 8.3 million in 2015), as a result of urban population growth and a decline in the average household size at 1.1 percent per annum[3].

New demand for housing will be concentrated in a few major cities and industrial zones. The two largest metropolitan areas, Hanoi and Ho Chi Minh City (HCMC) will drive urban growth into the medium-term. Spatial analysis shows that more than 50 percent of urban land in the country lies within the boundaries of these two urban areas, as well as 75 percent of new urban spatial growth. The Red River Delta Region (including Hanoi) and the South East Region (including HCMC) account for around two-thirds of annual housing demand or an estimated 244,000 out of the 374,000 units.

Current supply has been dominated by self-built solutions. Approximately 75 to 80 percent of units are produced by small-scale developers, micro-builders and households themselves. However, low and middle income households still face many difficulties in obtaining the necessary resources for a formal and decent self-built unit. First, access to formal land for self-built housing is often unaffordable due to the costly and lengthy procedures to obtain formal tenure. Secondly, access to finance is a constraint to many low income and informally-employed households, due largely to the low level of financial inclusion. Technical capacity to ensure quality construction of housing is also a challenge. Finally, certain regulatory and administrative requirements push households into informality, such as minimum plot sizes (e.g. 50 m^2 or more in some cities) and prohibitively costly infrastructure requirements. The government has started to increase flexibility for self-builders, taking into account sector needs. For example, Decree No. 64/2012/ND-CP allows for exemptions on construction permits for small projects, which reflects the government's willingness to support this sector.

The developer-built commercial sector has experienced strong growth, but has been vulnerable to cyclical downturns. Following the Doi Moi Reform era, state-owned developers dominated housing production until 1998. Since then, a growing number of private developers have entered and become active in residential housing. Yet, Vietnam's real estate sector has also experienced three major downturns in this period, revealing the weaknesses of the housing system. A volatile market during 2009-2012 resulted in rising inflation, high interest rates and slowed growth, which deflated the real estate bubble. Home prices decreased substantially, particularly in the middle and high-end market, leading to a stagnation of housing production, scarcity of liquidity, consolidation of actors and a sizable inventory of high-end housing stock needing completion or uptake. Prices for affordable homes (priced at below VND16 million/m^2) also decreased, but remained relatively stable during this period due to continued consumer demand. Unmet market demand, supported by the 30 trillion stimulus package, has led to stronger participation by developers in the affordable housing segment, in spite of lower margins. As the market stabilizes and investment returns, this interest could be leveraged to further increase private sector participation in lower market segments.

Demand for rental housing is high in urban areas and increasing. According to the 2009 Census, rental housing makes up around 15 percent of Vietnam's housing stock, or 3.3 million units nationwide. Rental housing demand is concentrated in urban areas (up to 26 percent of households in HCMC), among migrants (64 percent of migrants in HCMC and Hanoi live in rental housing), youths and low

[3] Authors' calculations based on Vietnam's Household Living Standards Survey (VHLSS), 2009 Census and 2013 Inter-Censal Survey.

income households. The need for temporary housing or rental solutions can be expected to increase as Vietnam becomes more urbanized, the population of students and migrant workers rise and the average age of marriage continues to increase, with many young people choosing to settle later in life. Existing affordable rental housing in Vietnam is mainly informal, small-scale and substandard. The low level of formality faced by many tenants has a significant impact on livelihood opportunities and magnifies vulnerability to poverty, particularly for migrants. Despite rising demand, the supply of formal affordable rental housing is limited, due to the low payment capacity of tenants, legal hurdles, and the difficulties for private sector to prepare financially viable projects, which prevents their participation and incentivizes landlords to remain informal.

Industrial zone workers contribute to a large share of rental housing demand. In Quarter 3 of 2014, out of the 15.8 million people who are employed in urban areas, 3.05 million belong to the manufacturing sector, with 2.25 million people working in 295 industrial parks and 15 economic zones across the country[4]. Among industrial workers, roughly 40 percent are between the ages of 15 and 29 and approximately 78 percent, or 1.75 million people, rent their dwellings. It is estimated that formal supply is only sufficient to respond to 10 percent of this rental housing demand, indicating that most people end up renting informally, and there is substantial unmet need in industrial zones for adequate rental and starter home options.

Despite the need, formal housing solutions are largely not affordable to the low income. Affordability analysis based on income groups indicates that only the top income quintile can afford developer-built commercial units. The 30 trillion stimulus package has extended affordability to middle income households, albeit at a high cost to government, by significantly lowering and fixing interest rates below prevailing market rates. However, as exhibited by Table 1, standard housing units are not affordable for lower-income groups, particularly those below the 40th percentile of household income, as well as informal income or tenure groups.

Table 1: Affordability based on Income Quintiles of Urban Households (in thousands, VND)

		Market Conditions				30 Trillion Program			
Income Quintile	Monthly Income	Loan Amount	Down-Payment		Affordable Starter Home	Loan Amount	Down-Payment		Affordable Starter Home
Q5	29,805	1,155,013	30%	495,005	**1,650,018**	1,507,588	30%	646,109	**2,153,697**
Q4	14,272	414,811	20%	103,703	**518,513**	541,434	20%	135,359	**676,793**
Q3	10,313	226,838	20%	56,709	**283,547**	326,031	20%	81,508	**407,539**
Q2	7,322	106,315	0%	0	**106,315**	185,193	0%	0	**185,193**
Q1	3,982	35,835	0%	0	**35,835**	75,524	0%	0	**75,524**

Source: Authors' calculations based on preliminary income estimates (urban Vietnam 2014) from the VHLSS 2012 short form and housing finance lending assumptions. Income data has been inflated by 13 percent CPI.

Access to housing finance is a major barrier for increasing affordability. There are large underserved segments of the market that are unable to access housing finance. For example, 68 percent of the labor force have informal income and therefore do not qualify for mortgages. Neither do home-owners with informal tenure and the poor, who have low payment capacity. Innovations in housing finance and lending channels are required to respond to these market needs, which are supported

[4] General Statistics Office. Report on Labour Force Survey. Quarter 3. 2014.

by long-term sources of funds. Furthermore, the real estate downturn in 2009-2012 exposed systemic weaknesses in the mortgage sector. Lender underwriting standards are widely varied and risk management practices are weak. There is also a need to improve the foreclosure system, develop early-indicator tracking tools for the sector and consider counter-cyclical prudential regulations to support sustained market stability. These will be important measures to guard against risks through market cycles, as growth and investor interest returns to real estate.

Land supply is another key obstacle to affordable housing production. Annually, an estimated 11,500 hectares of urban land is needed for housing. Formal supply is failing to keep pace with demand, which is forcing up prices and reducing affordability. The existing land administration framework is complex and inefficient. Key challenges to the delivery of suitable serviced land include: (i) difficulty for governments to mobilize vacant or underdeveloped land in cities; (ii) controversy in the State's land acquisitions and compensation practices; (iii) challenges enforcing and tracking the 20 percent land contribution requirement stipulated in Decree 188; (iv) the lack of land value capture tools to extract value from new development; and, (v) limited use of integrated land use planning and coordination between relevant ministries (i.e. MoC, MoNRE, MoT, MPI).

Land tax rates in Vietnam are currently very low, which contributes to speculation and elevated land prices. Land tax only accounts for 2 to 3 percent of total government revenues, due to minimal tax rates and below-market valuations prescribed by People's Committees in the Land Price Framework. This significantly limits revenues for providing services, infrastructure and funding for other public programs. Adjustments in the land taxation framework is expected to have a significant impact on increasing land supply and improving affordability, by reducing incentives for investors to hold vacant or underdeveloped land for speculation, thereby lowering land prices.

Existing housing programs have had some positive outcomes, however, most are still ongoing and results are unclear. There are almost a dozen housing programs in implementation. They have largely been successful at leveraging private sector and reaching a large number of households, notably the 30 trillion program, the Mekong River Delta flood mitigation program and home improvement support to low income rural families. Yet, most programs are designed independently for different target groups, using distinct delivery channels that are not coordinated with other efforts in the sector, and without clear accounting mechanisms for public expenditure. Several of these programs have also struggled to receive the necessary funding for implementation, while others have been implemented at high economic cost to the government. Finally, there is a gap in housing policy focus for poor urban households. Programs could be made more efficient through consolidating delivery systems and focus on developing broad market segments, rather than delivering to independent target groups.

Box 1 Examples of Vietnam's Government Interventions in Affordable Housing

30 Trillion Stimulus Package: GoV launched the 30 trillion stimulus package in June 2013 to stimulate the real estate market, while addressing the over-supply of high-end inventories, and reorienting lenders and developers toward real demand from middle and low income consumers. While SBV manages consumer eligibility criteria, loan disbursement and performance on the demand side, MoC is responsible for approving and overseeing projects on the supply side. Although the program has been largely successful at stimulating affordable housing production and lending, aimed to reach an estimated 45,000 households, it struggled initially with slow disbursement and largely benefits the formally-employed middle class at high economic cost to the government. The implicit economic cost of the subsidy for mortgage loans and developer loans is 23.8 percent and 7.1 percent of total capital, respectively.

Decree 188's 20 percent land contribution requirement: Decree 188's requirement of land contribution to social housing production and provision of complementary development incentives are among the GoV's first efforts to resolve supply-side housing blockages for urban low income segments. Low enforcement and underdeveloped procedures to manage and effectively utilize land reserves at the local level has resulted in developers' reluctance to abide by stringent guidelines and limited supply of land released for social housing through this initiative. This experience demonstrates the need to introduce new procedures by engaging local governments so that they can have input into policy design early and are prepared to implement.

VUUP's Housing Upgrade Component: Funding for housing microfinance under the Vietnam Urban Upgrading Program (VUUP) helped to expand and deepen MFI sector activities around micro-loans for housing improvement in urban areas. In conjunction with urban upgrading, USD 15 million was provided to MFIs and community networks to provide preferential credit for home improvement to low income households in HCMC, Hai Phong, Can Tho, and Nam Dinh. Lending in this program reached 90,000 households and demonstrated the interest of MFIs to deliver housing microfinance if the right government support is put in place.

Low income Rural Housing Program: This program targets poor households in rural areas without existing homes. The Vietnam Bank of Social Policy (VBSP) provides low-cost credit for home improvement and incremental construction, as well as basic technical assistance for construction. The Women's Union, Farmers Union, and Youth Union are among the community organizations that provide customer interface and operations, from origination and appraisal to disbursement and collection. The program reached 260,587 households by the end of Phase I in 2010 and Phase II aims to reach another 510,700 households within 4 years.

Difficulties in coordination weaken housing sector governance. The Ministry of Construction (MoC) plays a lead role in regulating and overseeing the housing sector. However, due to the interdisciplinary nature of housing, this role requires convening across almost a dozen separate concerned ministries (including, *inter alia*, MoC, MoF, MPI, MoNRE, MoT and SBV), which is a difficult task without the necessary tools and support. Many central government bodies act as institutional silos with *ad hoc* coordination and reporting mechanisms, which limits the ability of MoC to design and deliver cost-effective and integrated housing programs. There is a need to structure a more robust coordination framework, as well as invest further in management information systems in order to improve market information and monitoring and evaluation (M&E) of the effectiveness of public programs. This will allow the government to more easily measure and improve performance of policy initiatives.

Fiscal constraints also restrict investment in the housing sector. Though housing was identified as a key development target in the National Socio-Economic Development Plan, there is very little fiscal space to expand budget allocation beyond other priority sectors, for example, education and health. Vietnam's fiscal position has deteriorated since 2006, due to a rise in recurrent expenditures and a drop in government revenues from 25.6 percent of GDP in 2009 to an expected 20.1 percent of GDP in 2015. Public debt has reached above 60 percent of GDP, only slightly below the government's legal limit of 65 percent and the budget deficit has remained consistently above 5 percent of GDP. As a result, there are constraints for the introduction of new programs, a focus on decentralizing resource commitments to local governments and on cost recovery possibilities for public investments.

Some local governments have prepared innovative housing projects, yet most need support to become more effective in affordable housing provision in their cities. Local governments have the mandate for housing provision, but often do not prioritize housing despite the magnitude of the demand, due to a lack of technical know-how and ability to plan and mobilize resources toward the sector. Local Housing Development Funds, which were intended to act as a conduit at the provincial level to implement the 2005 Housing Law, have failed to be established in most cities due to lack of funding and guidance, and where they have been, have only had limited success. Subsequently, government have decided to merge these bodies with the Local Development Investment Funds, which have a new provision that allows for investment in public housing programs, yet still no guidance on local interventions in the sector. Local governments also depend heavily on central level regulatory approval, which can cause delays and restrict innovation in the sector. Nevertheless, there has been innovation at the local level, including efforts to pilot land readjustment in the Mekong Delta for flood-prone households and Public-Private Partnerships (PPPs) between employers and local government for mixed-use worker housing in Da Nang's industrial zones, which provide an opportunity for replication and scaling.

The Central Steering Committee (CSC) on Housing and Real Estate Market Policy is an important effort toward integration. Headed by the Deputy Prime Minister, this body was established to advise the Prime Minister on real estate and housing market interventions. The multi-disciplinary working group including all ministries relevant to the sector, as well as the directorates for agricultural development, labor federation, and urban management and construction, among others, has the mandate to advise and provide inputs into proposed housing programs and also to play a coordinating role for respective line ministries, bureaus, and directorates. However, the CSC has yet to possess clearly defined mechanisms for coordinating stakeholders, program implementation, and sector oversight.

The Housing Law presents the opportunity for government to consolidate and increase public investment in the housing sector. The revised Housing Law, passed by parliament in November 2014 and effective as of July 2015, provides the legislative framework for government support and reform in priority areas for affordable housing. This includes self-built housing, affordable rental housing, redevelopment of old public housing blocks, improved sector management, real estate management information systems, among other items. The challenge now is to operationalize the 2015 Housing Law by building out a set of capable actors, effective delivery systems and initiatives that can be used to more effectively manage the housing sector and increase affordability for the lowest income.

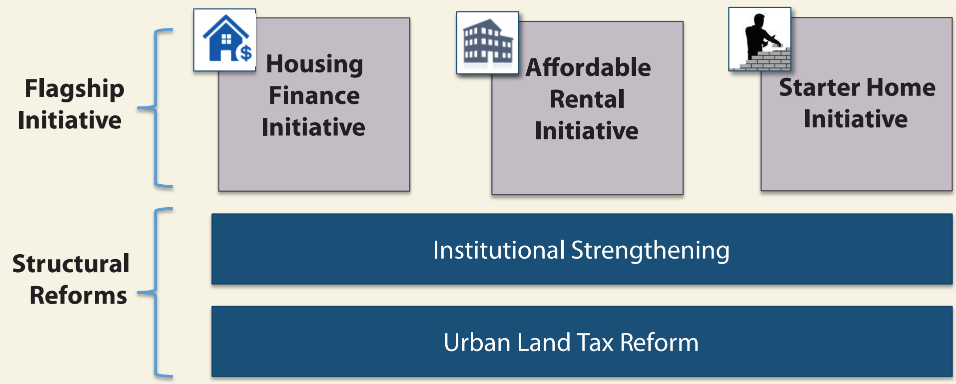
C. Roadmap Recommendations

The Roadmap outlines a strategy to inform and shape the government of Vietnam's interventions in the housing sector in the next five years. The primary recommendation is for the government to structure a National Affordable Housing Program as a vehicle to realize the objectives of the 2015 Housing Law. This Program would have three Flagship Initiatives and two Structural Reforms, as well as a package of supporting activities to strengthen management and regulation of the housing sector and to better target housing support toward the lowest income. The proposed structure of the National Affordable Housing Program is shown in Figure 2 and described in the following section.

1. Flagship Initiative: Housing Finance Assistance

The first initiative aims to expand access to housing finance to low income and informal households and strengthen the overall lending environment. The main focus is to support development of a set of specialized housing finance products to meet the different needs of low income urban households, while reducing the market's vulnerability to real estate speculation and the variability of investment cycles.

Figure 1 Structure for a National Affordable Housing Program



Firstly, it is recommended to use a more cost-efficient approach to expand access to mortgage finance. This requires restructuring the 30 trillion program by shifting toward a mortgage-linked buy-down subsidy and introducing a broader focus on building the financial sector's capacity for lending and managing housing finance risks. Specific activities will include designing and introducing the buy-down subsidy, investigating the feasibility of a secondary mortgage facility to provide a solution to long-term funding for banks, as well as a suite of activities to improve mortgage sector management, such as improved lending standards, risk management tools and monitoring systems. These are described in more detail in the report.

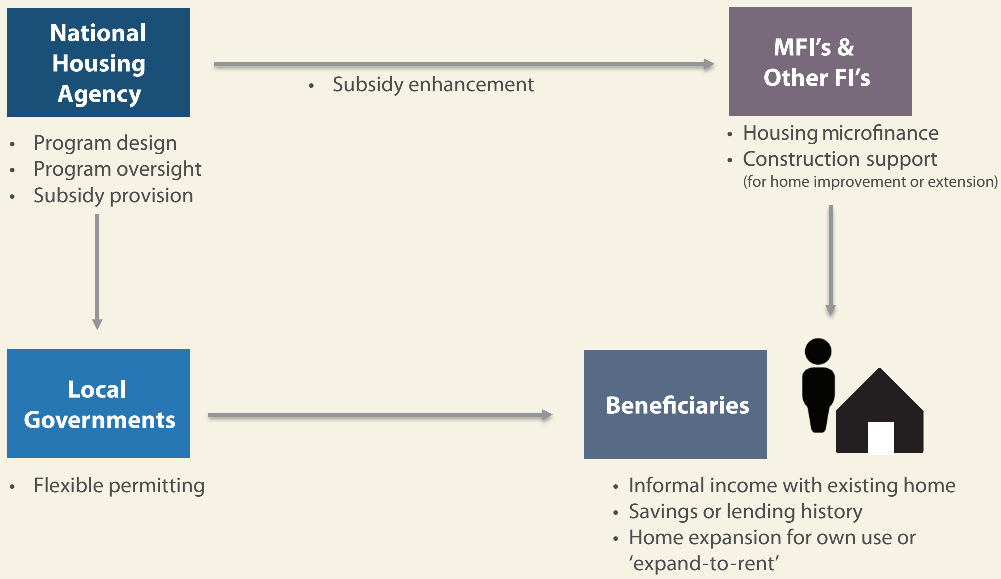
Secondly, expand the availability of finance for home improvement or incremental expansion with support towards a savings and subsidy-linked housing microfinance product. Please refer to Figure 3 for the interaction between actors. In such a program, participating financial institutions will qualify eligible households for a housing micro-loan (e.g. loans up to VND 30 million, for around 3-5 years) that would be linked to a subsidy enhancement provided by government. Credit-worthiness of low income households may be established through a minimum period of savings (e.g. 12 months) or a pre-existing savings or lending history. Construction technical assistance would also be incorporated into the loan to lower costs and improve quality of construction. Home expansion could be used for own-use or for rental purposes, where small landlords will be encouraged to construct an additional room for rental.

In the medium-term, another specialized housing finance product for development is a savings and subsidy-linked micro-mortgage. This product would target households with informal income for purchase of formal housing units and would also use a savings requirement for participating households (to help financial institutions to qualify people without a credit history or formal employment) and be linked to a government subsidy to enhance affordability for lower-income people. Micro-mortgages could be used in conjunction with the flagship initiative for starter homes.

2. Flagship Initiative: Affordable Rental Housing

It is recommended to invest in the development of an affordable rental program, driven by local governments, to increase private sector provision of quality and affordable rental housing in priority areas. This program would initially focus on supply-side support that is complemented by a set of reforms and activities to create an enabling environment for the formal rental market. In time, demand-side assistance can be introduced to assist the poorest and most vulnerable households.

Figure 2 Example of Housing Microfinance Product



To incentivize production, government is recommended to structure capital subsidies (e.g. in cash, infrastructure or land, where appropriate) in order to engage a set of accredited actors (e.g. investors, landlords, NGOs or employers) to provide quality rental housing to target groups. In order to access subsidies, rental housing providers must make a commitment to maintain units at affordable levels for a set length of time for the target population (e.g. 10 years). Local governments would oversee projects, which could include mixed-use and mixed-income elements to support development of integrated and well-serviced neighborhoods, as well as the financial viability of projects. The initiative can be started with pilots in industrial zones to respond to existing demand, and after testing, expanded to address other priority groups in urban areas, including low income households ('poor list' households and those below the 40th income percentile), students and young families.

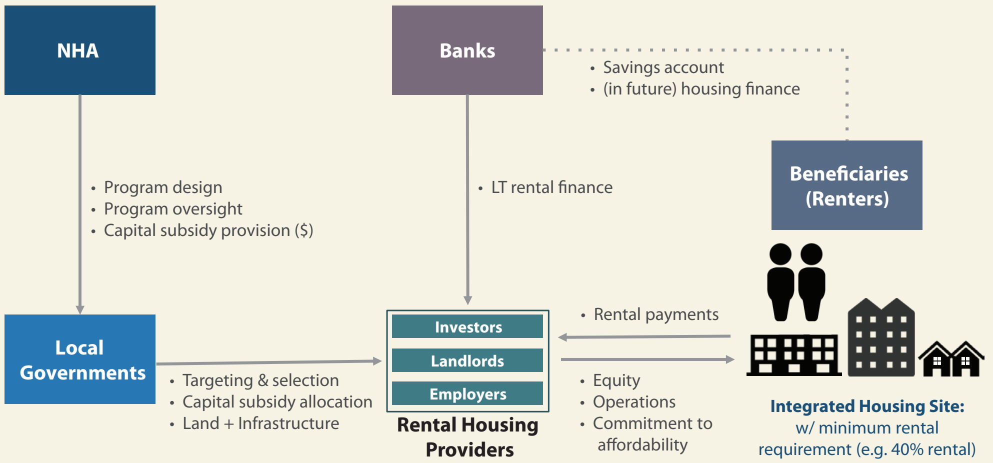
To reach the lowest income and most vulnerable households, rental housing vouchers may be needed, in order to fill the affordability gap between the monthly payment capacity of the poorest families and the rental income required by private sector to ensure adequate returns for the project investment.

3. Flagship Initiative: Starter Homes

The final initiative is focused on a program to support self-built housing with 'starter home' core units targeted at the lowest-income households, located in well-serviced urban, peri-urban and rural areas. Core units are typically one-floor with at least one room of 12 m^2 or larger, are move-in ready and can be extended incrementally over time by households, according to their changing needs, preferences and payment capacity.

Core units allow the lowest income, who are unable to self-provide, to have a formal start in their housing career, with basic infrastructure in place. Starter homes mitigate negative externalities that arise from completely self-built solutions in slum areas, such as public health issues, and are more cost efficient than ex-post neighborhood upgrading.

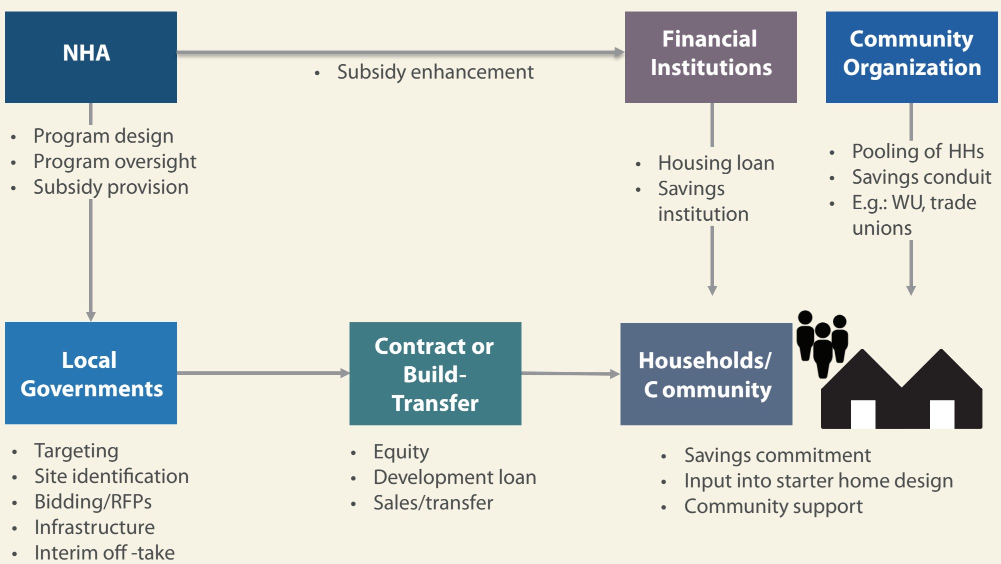
Figure 3 Affordable Rental Housing Initiative



Core units can be developed on a large scale by a private developer, through a cooperative movement, or a mix of both. The 'starter home' initiative could involve partnership with an intermediary institution or association (such as MFIs, trade unions, worker unions, women's groups), who would play a role in engaging and organizing groups of eligible low income households. Savings and subsidy-linked micro-mortgages can be used for the informally-employed, where households use regular savings to build up a credit-history (e.g. 12 months) to enable them to qualify for housing finance to purchase core house units.

Local governments would play an important role to identify and develop appropriate land sites for core housing projects (either through land reserved under Decree 188, or other tools, such as land pooling and land readjustment etc.), engaging private sector contractors, and supervising offtake, where units are sold, rented or allocated to eligible households. In time, home-owners may elect to incrementally expand their units through housing microfinance and construction technical assistance.

Figure 4 Starter Homes Initiative



4. Structural Reform: Institutional Strengthening

It is recommended to: (i) develop an over-arching body to carry out sector coordination and oversight; and (ii) focus on building capacity of local governments in at least five of Vietnam's high-growth cities, to support them to become effective executing agents of national housing initiatives.

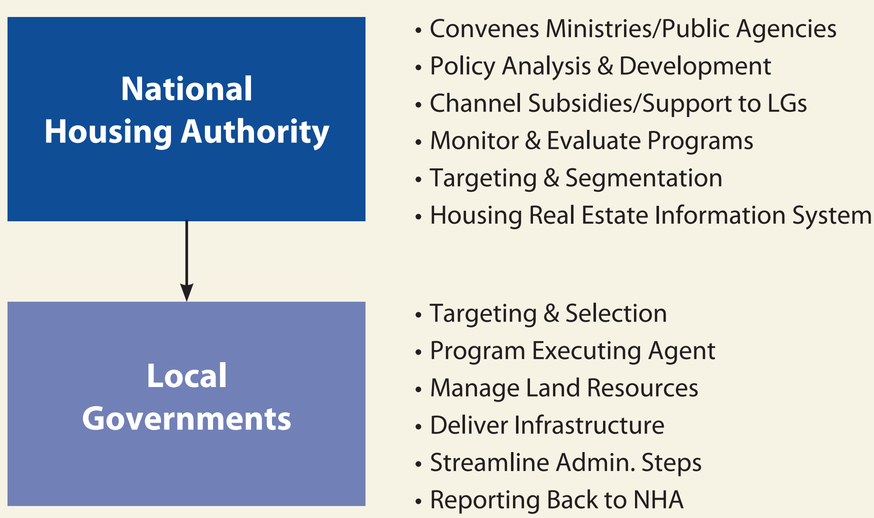
An overarching body, hereby referred to as a National Housing Authority (NHA), would act as an over-arching coordinating body, across ministries and local governments, to oversee housing sector interventions. The NHA need not be a new institution, it could be anchored under a lead ministry, determined by GoV, or by establishing a new executive body at a higher level of government, or by expanding the mandate and capacity of the existing Central Steering Committee.

Such an agency could have the following specific set of functions:

- Coordinate and convene public agencies
- Carry out policy analysis and development
- Channel subsidies and support to local governments
- Monitor and evaluate programs
- Develop a common targeting framework
- Oversee housing and real estate market information systems

The NHA would also engage and support local governments toward preparation and execution of the Flagship Initiatives. Local governments play an important role in carrying out local needs assessments, identifying target households, facilitating land provision, administering subsidies, engaging private sector and reporting back results for the monitoring of programs. By creating common delivery systems, clear performance indicators and platforms for training and peer-to-peer sharing, central government can support and incentivize local governments to become more effective agents in affordable housing provision.

Figure 5 Institutional Structure for Housing Sector Governance



5. Structural Reform: Urban Land Tax

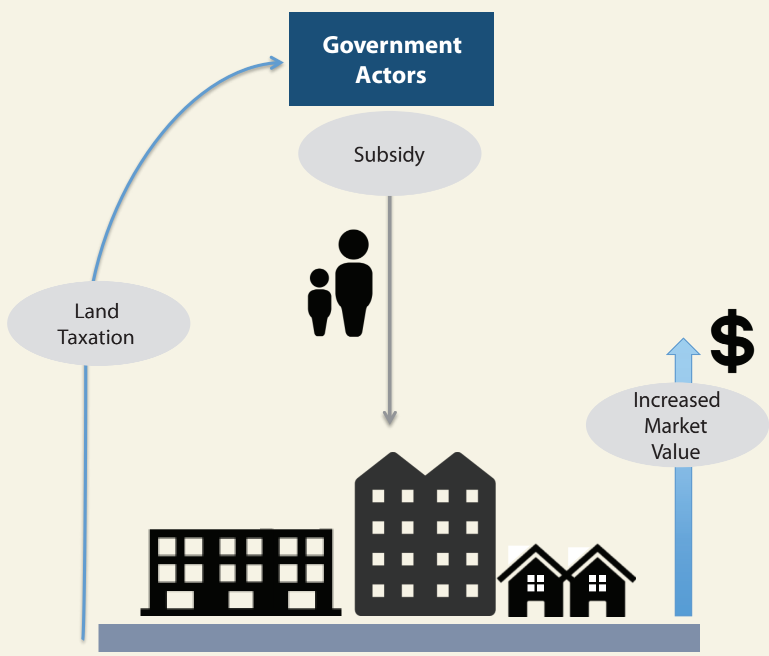
To build out these housing initiatives in a sustainable way, the government is recommended to consider adjustments in the structure of land taxation.

It is recommended that, in the short term, steps are taken to progressively increase the LPF so that it is in alignment with the market prices of land, as this can be undertaken within the existing legislation. Secondly, it is recommended that increases in the annual land tax rate or the addition of a levy or property tax[5] be considered as part of the review of the implementation of the 2013 Land Law.

The new structure would raise land tax revenues in a phased and progressive way, to enable local governments to better manage land resources, dampen speculation, raise revenues, and increase land supply for a better functioning market. In order to avoid any adverse effects on the low income, land right use holders may be charged with additional tax increments for multiple and larger land-holdings based on approved land use, whether developed or not.

With proper implementation, land tax reform would be achieved without any negative consequences to low income households. On the contrary, increased land taxation will reduce incentives for investors to hold idle land and mitigate the inflation of land prices from speculation, thus facilitating affordable housing for the urban poor, and ultimately improving the affordability of new formal housing. Increases in the LPF will also improve the compensation of existing land use right holders whose land is acquired for state-approved development projects.

Figure 6 Schematic of Urban Land Tax



[5] Any fee should be based on the land value (rather than the value of built property) and could be introduced as a surcharge to the land tax, possibly temporarily, in order to finance specific projects (e.g. a betterment levy) or may be considered an option to circumvent the tax rates that are fixed in the Land Law.

6. Creating an Enabling Environment for the Affordable Housing Market

Beyond the Flagship Initiatives and Structural Reforms outlined in the proposed National Affordable Housing Program, the Roadmap outlines a detailed agenda of supporting regulatory and investment activities in six areas of priority action. These will be critical to supporting the success of policies and improving management of the housing sector. These are listed below and described in the report in more detail.

Housing Finance:

- **Continue to support development of specialized savings and subsidy-linked housing finance** products to address the gap in access to housing finance.
- **Ensure the safety and soundness of the mortgage sector** by enhancing prudent lending standards, strengthening monitoring and risk management tools.
- **Facilitate access to long-term funding** by assessing the feasibility of a secondary mortgage facility, in order to deepen the lending capacity of the financial sector.
- **Develop a framework for financial literacy and borrowers' protection.**
- **Support development of micro-finance regulations.**

Access to Land:

- **Build systems to reclaim undeveloped land,** which has been allocated to investors, if it is not developed within the specified period.
- **Introduce land pooling and land readjustment (LPLR)** as pilot projects in three cities to improve efficiency and equity of land development and increase land supply.
- **Design clear bidding frameworks (i.e. Request for Proposals or RFPs)** in order to create a more competitive and transparent system for selling and allocating development rights to public land holdings.
- **Strengthen the implementation guidance of land contribution decrees** (e.g. Decree 188) with support to local governments to strengthen enforcement capacity, improve valuations and tracking of land contributions, and systems to release land for social housing programs.
- **Expand "one-stop-shop" model** to streamline land-related services and provide local interfaces with district administration.
- **Replace one-off land use fee** with a modest administrative charge to increase incentives for all land holdings and transfers to be registered.
- **Prepare a coordinating framework**, for all land-related functions to improve coordination across involved ministries.

Affordable Rental Housing:

- **Improve market information** for the rental sector to increase visibility and understanding of the sector.
- **Strengthen legislative framework for rental**, including landlord-tenant relations, business registration, income tax waivers for rental providers, and introducing more flexibility into rental housing regulations.
- **Support innovation in rental housing finance** e.g. long-term financing for landlords and investors.
- **Scale the capital-subsidy program** to support affordable rental in more priority areas for target groups.

- **Introduce time-bound rental vouchers** to enhance the payment capacity of the lowest income, which could be coupled with supply-side support.

Self-Built Housing:

- **Expand urban upgrading programs** with delivery of infrastructure to under-serviced areas. Upgrade or redevelop in-situ, or voluntarily resettle, as per preferences through community participation.
- **Scale flagship initiatives for incrementally self-built and core housing.**

Developer-Built Housing:

- **PPPs to improve old housing stock.** Develop and implement a model to incent developer participation in redevelopment of public housing blocks (e.g. through development bonuses).
- **Promote shared tenure models**, including condos and coops, with an emphasis on improved Home-Owners' Associations.
- **Explore transferable development rights** and strengthen mechanisms for payment in lieu of land contributions.

Housing Sector Governance:

- **Invest in the building blocks of effective governance,** including improved management information systems for the housing sector, development of good targeting frameworks and program monitoring and reporting procedures.
- **Improve regulatory and administrative environment.** Assess and standardize administrative processes for land and housing development (e.g. e-systems, simplifying or minimizing steps). Carry out a regulatory audit and make necessary adjustments toward clear and consistent legislation.

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PART I

A Comprehensive Assessment of Vietnam's Affordable Housing System

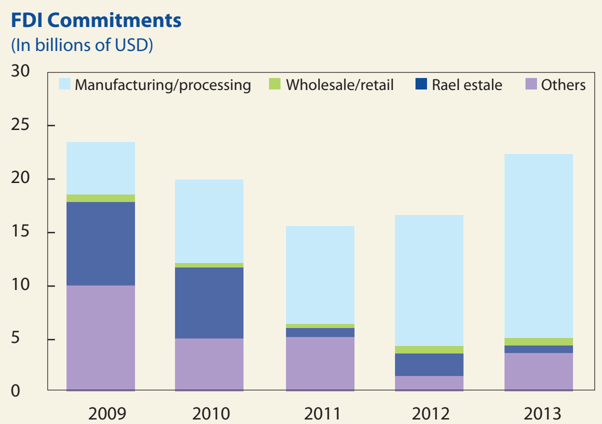
Chapter 1 Country Context

1.1 Macro-Economic Situation

Over the past two decades, Vietnam has maintained one of the fastest growing economies in the world and achieved a substantial reduction in poverty. Vietnam's economy was transformed through a series of market-based reforms carried out under Doi Moi since 1986. Since then, the country has experienced impressive economic growth, averaged at 7.4 percent per annum from 1990 to 2008, lowering to an average of 6 percent per annum from 2007 to 2013. This growth has been associated with a substantial reduction in poverty levels, from 58 percent in 1993 to 17 percent in 2012[6].

Market volatility from 2009 until 2012 highlighted the need for further reforms to address distortions in the state enterprise and banking sectors. Vietnam has largely managed to bring under control chronic inflation, which peaked at 23 percent in August 2011 and has since fallen to a low of 2.6 percent in November 2014, with a set of policies focused on maintaining macro-economic stability, addressing the banking sector's vulnerabilities and reforming state-owned enterprises (SOEs). The State Bank of Vietnam (SBV) has overseen a number of merger and acquisitions to remove weaker players and manage bad debts. There were 74 SOEs equitized in 2013 (thrice the number of 2011 and 2012) and a target of another 200 for 2014. The Vietnam Asset Management Company (VAMC) has absorbed around VND90 trillion or around US$4.2 billion worth of non-performing loans (NPLs), as of October 2014, yet the total volume of NPLs in the market is still unclear and VAMC is still to implement a strategy to actually resolve these[7].

Figure 1.1 Composition of FDI Commitments



Source: Adapted from IMF Article IV, 2014.

The outlook is positive with continued macro-economic stability and strong performance of the foreign-invested manufacturing export sector. Vietnam has attracted large inflows of Foreign Direct Investment (FDI) for export production due to favorable investment conditions and its low-cost and high-quality labor

[6] World Bank. Well Begun, Not Yet Done: Vietnam's Remarkable Progress on Poverty Reduction and the Emerging Challenges. Vietnam Poverty Assessment. Hanoi. 2012.

[7] World Bank. Taking Stock: An Update on Vietnam's Recent Economic Developments. December 2014.

force. Positive macro-economic developments and steps to resolve NPLs have contributed to an improvement in the government's sovereign risk rating from B2 to B1 by Moody's and from B+ to BB- from Fitch, boosting investors' confidence. This enabled the government to recently issue US$1 billion of bonds on international capital markets, which was ten times oversubscribed, at a favorable annual interest rate of 4.8 percent. Liquidity injections have brought some relief to issues that have reduced the lending capacity of the banking system and contributed to a sharp slowdown in domestic credit, from a height of 31.9 percent of GDP in 2010 to below 15 percent in 2015, yet recovery has been slow[8].

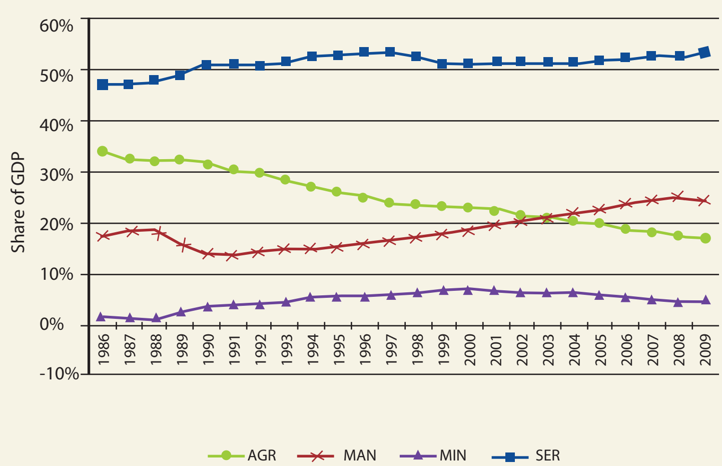
Vietnam has been undergoing a major structural shift away from agriculture toward services and manufacturing. Between 1990 and 2014, agriculture's share of GDP dropped from 39 to 17 percent, and its share of total employment decreased from over 70 percent to close to half of the total workforce. Most of these jobs were taken up by the manufacturing and service sectors, where new job creation has increased the share of the workforce employed in services from 18 to 32 percent, and those employed in manufacturing from 8 to 14 percent. There has also been movement of labor away from household businesses toward firms in the enterprise sector and a reallocation from state-owned firms toward private domestic and foreign-owned firms. These large structural changes in employment toward higher value and productive sectors has led to an overall growth in aggregate labor productivity, at an average of 5.1 percent annually, which has played an important role in sustaining Vietnam's economic growth[9].

1.2 Urbanization and Poverty Trends

The structural transformation of Vietnam's economy will be supported by urbanization and new employment opportunities in cities. Currently, 32 percent of the total population, or 29 million of 89 million people, live in urban areas. The growth rate of the urban population has averaged 3.5 percent per annum since 2000, one of the highest in the region. For every additional percentage of urbanization, Vietnam has achieved 8 percent in GDP growth, which is reasonably strong compared to other countries in the region (6 percent for China, 10 percent for Thailand and only 2 percent for Indonesia). Continued rural-to-urban migration will be important to sustain Vietnam's large gains in economic production and poverty reduction, with a shift in employment from informal and low-productivity areas to formal jobs in the services, industrial and manufacturing sectors.

Population growth is increasingly concentrated in a few high-growth regions. Spatial analysis shows that more than 50 percent of urban land in the country lies within the boundaries

Figure 1.2 Share of GDP by Sectors, 1986 - 2009



Source: McCaig, B. Pavcnik, P. Moving Out of Agriculture: Structural Change in Vietnam. 2013. AGR: Agriculture, MAN: Manufacutring, MIN: Mining; SER: Services.

[8] Ibid. 2014.
[9] McCaig, B. Pavcnik, P. Moving Out of Agriculture: Structural Change in Vietnam. 2013.

of Hanoi and Ho Chi Minh City (HCMC), as well as 75 percent of new urban spatial growth[10]. Meanwhile, the population in rural areas has stagnated, with outmigration at 13.3 percent, exceeding the rate of natural population growth. Industrial zones are another area of high growth, with currently 2.25 million people working in 295 industrial parks and 15 economic zones across the country. Attracting further investment and stimulating job creation in industrial zones is an important part of Vietnam's long-term development strategy, with a target under the national master-plan of reaching 7.2 million industrial workers by 2020.

These high-growth regions have contributed substantially to spearheading poverty reduction, yet increasing inequality remains a concern. Income growth has been concentrated mainly around the large cities and in areas with export-oriented economic activities. Poverty levels are substantially lower in cities and in particular, large cities, than rural areas, where the poverty rate is still elevated at 22 percent of the rural population. Only 1.9 percent of the population of the Special Cities, Hanoi and HCMC, are classified as poor, and only 3.8 percent in the Class 1 cities, compared to the average poverty rate of cities at 5 percent, with small cities and towns accounting for 55 percent of the total urban poor or an average of 11.2 percent of their population. Economic development has enabled significant progress, but the benefits have not always been shared equally. The Gini coefficient, a measure for inequality, has risen from 33 in 1993 to 43 in 2008, which is above the warning level. One major focus going forward will be ensuring there is space for the urban low income in cities and maintaining such a high level of inclusive urban growth in Vietnam's large cities.

Continued economic development, increases in income and urban population growth will result in high demand for housing in cities. GNI per capita has increased from US$400 in 2000 to US$1,740 in 2013[11]. This economic growth has been associated with rising incomes and increased appetite for housing consumption. Housing makes up 27.1 percent of total expenditures for the highest income quintile, while only 7.5 percent of expenditures for the bottom income quintile (with food accounting for 58.3 percent). Also, income changes and socio-cultural preferences are reducing the average size of urban households from 4.36 persons in 1999 to 3.64 persons in 2014. These factors, in additional to the urban growth patterns described earlier, are contributing to a high growth in the number of urban households which will translate into strong demand for urban housing, particularly in Vietnam's large cities and industrial zones.

1.3 Real Estate and Construction Sector

Since the late 1990s, the state's recognition of the market price of land and housing has led to

Table 1.1 Poverty Levels in Urban Areas by Class of City and Rural Areas, 2012

	Special City	Class 1	Class 2	Class 3	Class 4,5	Rural
Number of cities in category	2	7	14	45	634	
Average population (000)	4,075	467	225	86	11	
% of total population	9.5	3.8	3.7	4.5	8.1	70.4
% of urban population	32.1	12.9	12.4	15.3	27.3	
Poverty rate (%)	1.9	3.8	4.2	5.8	11.2	25.6
Poverty gap (%)	0.4	0.6	0.7	1.1	2.4	6.8
Share of urban poor (%)	11.0	8.8	9.2	5.9	55.0	

Source: Vietnam Poverty Assessment 2012.

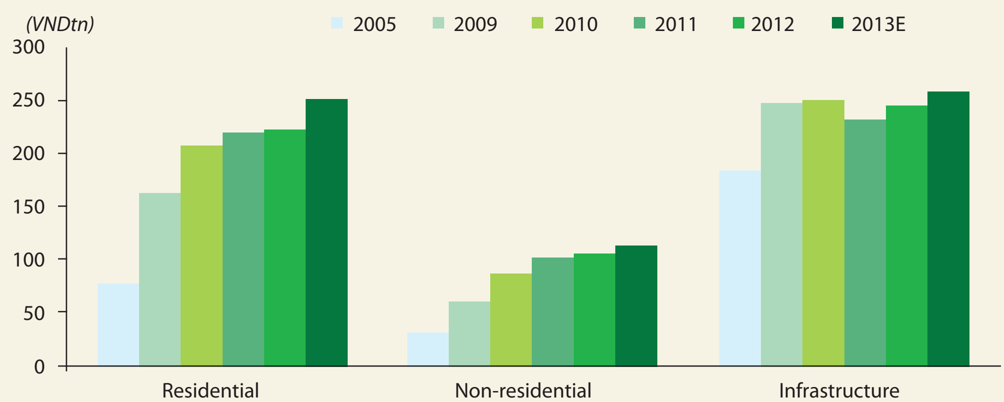
[10] World Bank. East Asia's Changing Urban Landscape. Washington, DC. 2015.

[11] Calculated using the Atlas Method. World Bank Databank.

extremely high profitability in the real estate market, attracting a high level of investment. Between 2007 and 2008, foreign direct investment (FDI) in the real estate sector has increased from 35 percent of the total USD 20 billion registered FDI in 2007 to 54 percent of USD 64 billion of FDI in 2008[12]. This substantial inflow and over-investment contributed to uncontrolled credit growth, inflated prices and subsequently the real estate bubble that led to a high number of NPLs, which were primarily caused by defaults on developer financing, and over-supply of unsold or uncompleted stock. The boom and bust was detrimental to both financial stability and the real economy.

Nevertheless, the construction sector has become an important source of employment and economic growth. The construction sector has experienced a compound annual growth rate (CAGR) of 10 percent from 2005 to 2013, peaking at 25 percent in 2013. The private sector plays a major role in driving the growth of the construction industry. The share of gross output in the sector generated by the private sector reached 84 percent in 2013 mainly in residential construction and infrastructure development via Build-Transfer (BT) and Build-Operate-Transfer (BOT) financing models. The residential segment grew from 27 percent of gross outputs in 2005, to 40 percent in 2013. Not only did the sector weather the impact of the country's real estate market slump and the global economy's stagnant growth, it has also created employment for 5.2 percent of the population.

Figure 1.3 Gross Output of the Construction Sector by Segment in 2013



Source: Data from General Statistical Office (2013), adapted from VPBS 2014.

1.4 Priorities of Government Development Policy

Government's national priorities are outlined in the five-year National Socio-Economic Development Plans and have been largely focused on social security, poverty reduction and infrastructure development. In the 2011-2015 Plan, there was a set of 16 national programs launched to address a wide-range of socio-economic issues, such as education, health and rural development, for different target groups. These programs were the responsibility of different executing ministries and have included the National Target Program for Poverty Reduction, the National Target Program for Employment, the National Target Program for Rural Water Supply and Sanitation, among others, with varying levels of success. These priorities have now been consolidated into only two main programs, Sustainable Poverty Reduction and New Rural Development that will be the focus of Vietnam's Socio-Economic Development Plan for 2016-2020.

Public spending has focused largely on investment in infrastructure and social development. Vietnam's level of capital expenditure, at around

12 VPBS. Vietnam Construction Sector: Industry Coverage. Hanoi. March 2014.

6.5 percent of GDP, is moderate compared to other countries in the region (around 8 to 10 percent of GDP in China and Thailand). There is also a strong focus on investment in social development sectors, such as health and education, which have minimum budget allocation rules, for example, not less than 20 percent of total spending on education. Although housing has been identified as a key social policy target, there is very tight fiscal space to expand budget allocation beyond existing commitments.

Vietnam's fiscal position has deteriorated over the past decade. Vietnam relies heavily on consumption taxes with revenues from VAT and excise tax accounting for 33.4 percent of total revenue in 2013. Given the slow-down in domestic credit and consumption, government revenues have declined from 25.6 percent of GDP in 2009 to a projected 20.1 percent in 2015 and total expenditures have been been rising steeply, reaching 28.4 percent of GDP in 2013 and with a continued rise of 11.5 percent (year-on-year) in the first nine months of 2014. This is largely due to an increase in recurrent expenditures, which made up 68 percent of the budget in 2013, and is relatively high compared to other countries in the region. Government debt has also risen to above 60 percent of GDP, slightly below the legal limit of 65 percent. Although sovereign debt risk is considered low, the legal limit for the national debt, as well high and continued budget deficits (5.3 percent in 2013 and 2014), are prompting a commitment to fiscal consolidation and conservatism toward new initiatives without a clear cost recovery strategy[13].

As part of a long-term financing strategy, the government is in the process of fiscal consolidation and exploring ways to leverage alternative sources of funds for investment in priority areas. One strategy being employed by government has been decentralizing responsibilities to local governments and another is developing a favorable framework to attract private sector interest in infrastructure investment. Among financing options, public-private partnerships (PPP) is seen as an important tool to leverage financial resources and expertise from the private sector, while improving the quality and coverage area for infrastructure services. Though, the legal and regulatory framework guiding PPP transactions is still in a stage of iterative development.

Local governments play a key role in public service delivery. Vietnam has 4 tiers of government: central, 63 provinces or cities, 700 districts or cities and towns, and 11,145 communes. Share of local government spending has been increasing, as Vietnam continues a process of decentralization, from 47.5 percent in 2003 to 55.6 percent in 2012, which is relatively high compared to other countries. There has been a rapid expansion in capital spending at the local level, from below 60 percent in 2003 to 74 percent of total capital expenditures in 2014. This rapid increase has created concerns over the efficiency and consistency of spending with national-level objectives, capacity of local governments and the strength of monitoring mechanisms. Focus of the 2015 State budget law includes increasing fiscal autonomy of local governments, improved linkage between inter-governmental transfers and strategic development objectives, shifting from a input-based budget to performance-oriented system and improving budget accountability.

In the medium term, government will focus affordable housing policy toward supporting other national targets and high-priority development programs. In particular, affordable housing will be an important component to complement the development of higher-productivity jobs in cities and industrial zones, alleviating poverty of the poorest 40 percent of the population, as well as facilitating achievement of the national targets for higher levels of urbanization. In the environment of fiscal consolidation and the government's commitment to macro-economic stability, there is also a focus on interventions that can improve the efficiency of public spending or enable cost recovery, as well as policies or instruments to mitigate the risks of volatility in the real estate market.

[13] Tuan, T.B. PFM Reforms: The Lessons Learnt-Promises and Tears. Asian Regional Seminar on Public Financial Management. Phnom Penh. 26 November 2014.

Chapter 2

Housing Sector Governance

2.1 Institutional Framework

In terms of housing sector governance, the Ministry of Construction (MoC) plays a lead role, at the central level, in regulating and setting national policy and investment objectives for housing. Due to the interdisciplinary nature of housing, this role requires convening across around a dozen central-level ministries and government bodies, which are involved in implementing different housing-related activities based on guiding decrees, decisions and circulars. The key central-level actors include the Ministry of Finance (MoF), Ministry of Planning and Investment (MPI), Ministry of Environment and Natural Resources (MoNRE), State Bank of Vietnam (SBV), Vietnam Bank of Social Policy (VBSP) and Ministry of Transport (MoT), among others. The activities of each of these government bodies, as related to housing, are described in more detail in Table 2.1.

Table 2.1 Role of Key Government Entities on Housing

Entity	Housing-Related Functions
Central Steering Committee for Housing and Real Estate Market Policy	The Central Steering Committee (CSC) is the Prime Minister's advisory body for housing, led by the Deputy Prime Minister. The CSC assesses market dynamics and trends and guides development of laws and policies related to housing and real estate markets.
Ministry of Construction	MoC is the lead agency responsible for housing, construction and urban development. MoC develops national housing policy, strategies and programs and oversees and guides program implementation and enforcement of regulations. MoC also leads the development of a housing sector database and collects housing sector performance data from local government and other actors.
Ministry of Planning and Investment	MPI is the coordinating ministry that develops national development plans, strategies for development investment, and tracks growth and investment statistics. In housing, MPI collaborates with MoC, related ministries, and local governments to develop housing development goals, investment policies, program incentives, and housing finance plans. MPI also provides oversight on all industrial development zones.

Table 2.1 Role of Key Government Entities on Housing (Continued)

Entity	Housing-Related Functions
Ministry of Finance	MoF manages the state budget and property, and oversees development of fiscal policies related to housing. For local governments, MoF reviews and approves annual budgets and manages inter-governmental fiscal transfers. MoF oversees SBV's annual performance reports, including interest rate subsidy and credit support programs, as well as managing bond market development and appraisal industry certification. MoF also determines policies related to land tax and tax-related subsidies for housing.
State Bank of Vietnam	SBV is responsible for the financial stability and soundness of the housing finance sector with lending standards, prudential regulations and management of interest rates. SBV engages commercial banks and non-bank financial institutions (e.g. microfinance institutions) in housing sector lending and supports development and manages housing finance subsidy programs. SBV also develops measures to encourage commercial banks to scale and diversify housing finance products and provides oversight toward the national credit information aggregator, the Credit Information Center.
Ministry of Natural Resources and the Environment	MoNRE's General Department of Land Administration manages and administers land across the country. Related to housing, MoNRE coordinates with MoC to conduct land use planning and large-scale land use conversion, gathers land and housing registration and ownership statistics, issues land use rights, develops and operates the land information system, and carries out resettlement compensation and support.
Ministry of Transport	MoT makes investment and planning decisions over roads and public transit systems that directly affect the demand and pricing for land and housing near transport corridors and nodes.
Vietnam Bank of Social Policy	VBSP lends to community groups, co-ops, and households to implement national social policy priorities, with emphasis on rural, low income and poor segments. Funding comes from the state budget and other deposits. VBSP's programs for housing lending involve small loans for sanitation improvement, housing renovation, and flood prevention. These programs utilize a community-based lending framework.

Effectively managing such a large number of actors requires clear mechanisms for coordination, which is difficult without the necessary tools. Currently, many government entities still act as silos in the housing sector, with only ad hoc coordination and reporting systems, which limits the ability of MoC to promote collaboration and prepare cost-effective and integrated housing programs. As a result, many housing programs are fragmented and it has been difficult to monitor and assess their performance.

Reliable information on the housing sector is not yet readily available to support policy formulation and decision-making. Within the MoC's Bureau of Housing and Real Estate Market, the Institute of Construction Economics is responsible for monitoring housing markets and government programs.The Bureau collects annual reports from subnational governments and analyzes sector performance to propose new policies and guidelines on policy implementation. However, GoV has recognized that much more can be done to facilitate the availability and sharing of up-to-date and accurate housing information. MoC has now been charged to develop and manage the housing and real estate information system. A new decree has been drafted to define the scope, the principles and the role of key stakeholders in contributing to its establishment and maintenance. This would cover market data as well as account for public spending in housing to allow better monitoring of the real estate sector's movements and development of more effective housing policies and program.

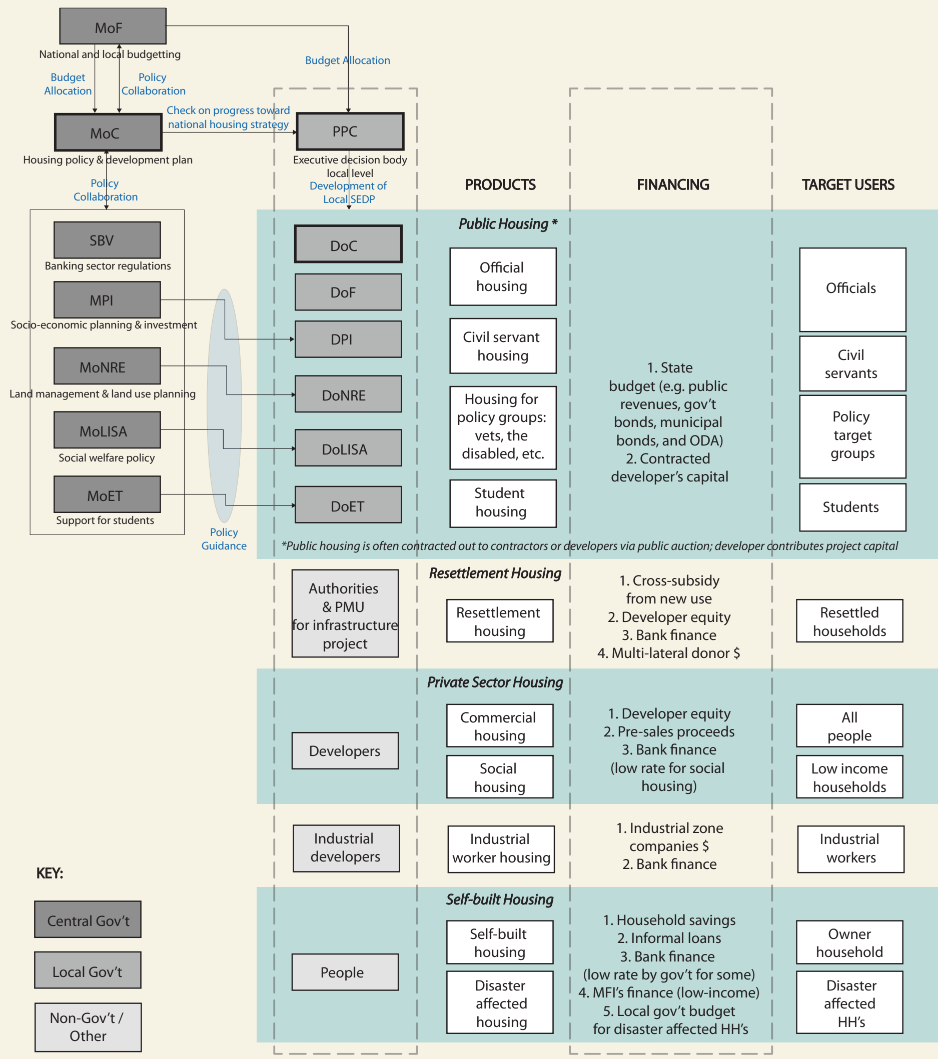
The Central Steering Committee on Housing Policy and Real Estate Market (CSC) is a noteworthy effort to consolidate and guide the sector. Created in 2008 to provide advisory on housing policy, the CSC was expanded to cover the real estate market in 2009 and is headed by the Deputy Prime Minister. The CSC consists of a multi-disciplinary working group from all relevant ministries, along with directorates for agricultural development, labor federation, and urban management and construction, among others. The CSC has potential to act as a platform for dialogue on proposed housing programs and to play a coordination role for respective line ministries, bureaus, and directorates. However, CSC has yet to possess the capacity or clearly defined mechanisms for managing stakeholders, program implementation, and to carry out other sector oversight activities.

At the subnational level, local governments have the mandate to ensure the provision of affordable housing, yet often do not prioritize housing in spite of local needs. Many local governments lack the technical know-how and ability to plan and mobilize resources toward the housing sector. Regulatory efforts to require local governments to commit local funding and resources to housing have largely not succeeded due to limited budget flexibility at the local level, lack of political buy-in, as well as limited guidance from central-level on how national programs can be implemented and maintained locally.

Creation of the Local Housing Development Funds (LHDFs) offers an example of the mismatch between national-level policy objectives and local-level implementation. Intended as a conduit to implement the 2005 Housing Law and structured by Decree 90/2006/ND-CP, LHDFs were designed to be established at the provincial level and funded through sales of public housing, rental fees, land use fees, and local budget allocation. Eight years of implementation resulted in little uptake, with only 9 LHDFs being established, only 2 of which carried out any major operations, due to limited budget set-aside by local governments[14]. In 2014, MoF proposed consolidation of LHDFs into the Local Development Investment Funds (LDIF), which have become more established and funded local implementing agents. In comparison, LDIFs have a clear regulatory mandate, including income tax waivers, and are managed through close coordination with Provincial People's Committees (PPCs), MPI and MoF on standards for procurement, financial planning and project execution. Several LDIFs have already been active in social housing projects, for example, student dormitories.

[14] According to reports from 41 provinces, there were only 9 housing development funds: 1 with independent operating structure (HCMC and Hue); 3 (Dong Nai, Lam Dong and Khanh Hoa) as part of the local development investment fund); 2 relegated housing responsibility to local development investment fund (Dak Lak, Binh Dinh); and 2 with fund established but not yet capitalized (Ca Mau, Ninh Thuan). In addition, 2 provinces (Ba Ria-Vung Tau, Dong Thap) set aside 183 billion VND at an account at the local treasury under the management of the Department of Finance (Report by MOF, mimeo received 8 January 2015).

Figure 2.1 Institutional Structure of Vietnam's Housing Sector

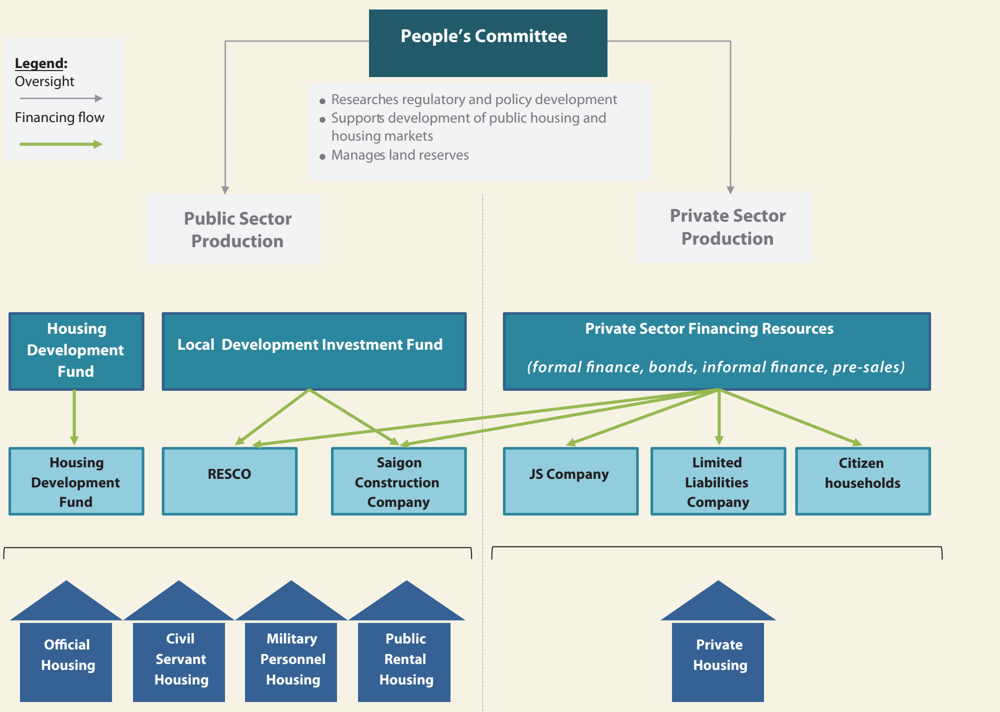


Source: Authors' adaptation from ALMEC, 2006.

Mismanagement at the local-level can increase costs of housing development and restrict private sector participation. People's Committees can be inconsistent and non-transparent in carrying out administrative procedures related to housing, which introduces uncertainty for market development and difficulties to carry out affordable housing projects. Timelines and costs associated with the local construction inspectorate in issuing development rights and enforcing construction permits are usually unclear and can vary widely. This incentivizes people to remain informal and makes it difficult for new market entrants or private sector developers to plan and manage their development costs. Better coordination and transparency, such as utilization of online systems or streamlining administrative requirements, will allow local governments to enhance their support of affordable housing delivery and a well-functioning local housing market.

There have been cases of local government innovation in the housing sector, yet dependency on central regulatory approval can create hurdles. Some examples of local innovation includes land pooling and land readjustment (LPLR) schemes in Can Tho or integrated planning in Vinh City for mixed-income and mixed-use housing in partnership with the private sector. However, both of these initiatives have needed central-level approvals and legislative changes that have created implementation delays and made it difficult to scale pilots. The Da Nang Housing Company is another example that provides an opportunity for replication and scaling. In this case, Da Nang carried out Public-Private Partnerships (PPPs) between employers and local government for mixed-use worker housing in Da Nang's industrial zones. The Special Cities, Hanoi and HCMC, have also had more autonomy in policy implementation and experimentation, due to their more substantial local budgets and the high capacity of the local government. For example, HCMC has developed schemes to provide finance for both large-scale rental housing providers and small landlords to expand local supply of quality rental housing, although uptake has been limited.

Figure 2.2 Housing Financing in Ho Chi Minh City



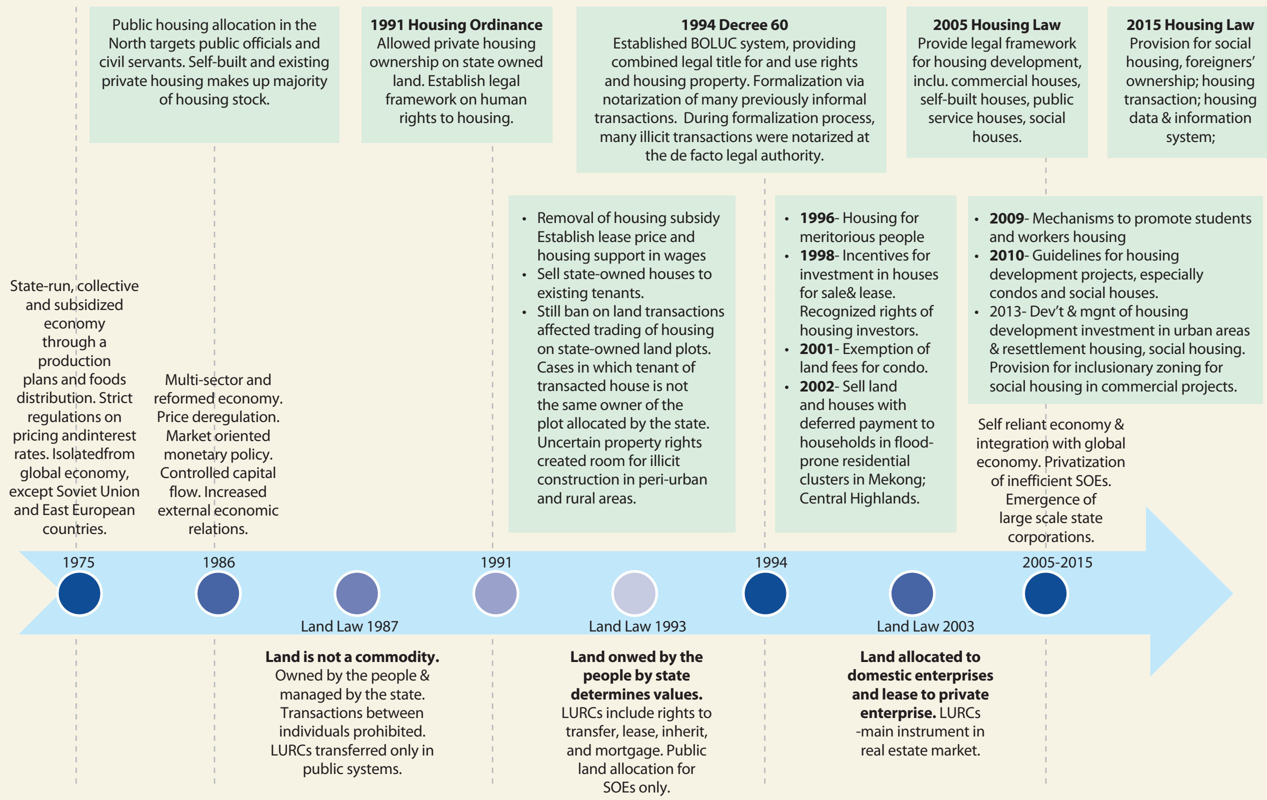
Source: Authors' illustration based on interviews with the DoC of HCMC.

2.2 Legislative and Policy Framework

Vietnam has gone through several waves of housing policy over the past three decades. Vietnam's approach to housing policy has shifted from a centrally planned public housing approachto a market-oriented system following Doi Moi. Under the old system, housing was considered a form of social welfare and provided mostly for free by government institutions and state-owned enterprises, scarcely responding to need. There was little incentive and means for housing investment and improvement, as nominal rents collected did not cover the cost of basic maintenance. On July 5, 1994, the government issued Decree 61/1994/ND-CP which allowed the trading of property for the first time, effectively enabling the start of a market-based real estate sector.

In the decades since 1994, the real estate market has experienced robust growth. A large number of enterprising private sector developers and lenders have emerged to respond to consumer demand. This has provided many benefits, including an overall improvement in housing conditions in the market and an increase in the availability and diversity of housing products, in terms of location, configuration and price points, to suit different household needs. However, this market-based approach has not resulted in adequate supply for lower income groups and has pushed up house prices beyond the reach of many, keeping the level of informality at a high level.

Figure 2.3 The Evolution of Vietnam's Housing Policy



Source: Authors' illustration

Experience over the past decade has led to the 2015 Housing Law. Ratified by parliament in November 2014 and effective July 2015, this Law re-commits government into the role of ensuring that low income Vietnamese are not excluded from the market and are supported to access affordable and adequate housing. This Law has re-oriented the focus of housing policy toward urban areas, in particular, self-built housing and affordable rental, as means to support the target grounds access suitable housing solutions. The Law has made progress in clarifying definitions related to social housing and broadened target groups. It maintains support to the private sector in terms of tax and land-use fee waivers and specifically mentions the direct use of government budget, among other sources, to contribute toward ensuring housing access for all.

Other key aspects of the new housing law include land management, information systems and housing delivery. There is a new mandate for local governments to set aside land plots for social owner-occupied and rental housing and include these in spatial plans. The development of a more advanced housing information system, which would be led by MoC and linked to the land cadaster and registry database, is also outlined as an activity to improve management of the sector. On rental housing, there are new stipulations on support for social housing for rent and rent-to-buy options for urban residents. This includes a clearer legal framework on tenant and landlord rights, directions on home-owners' associations, as well as for determining prices for social rental housing (e.g. restricting private sector profits to 10 percent). Finally, the self-built or incremental housing sector is identified as an important source of affordable housing supply and an eligible product for social housing support, such as tax exemptions and credit at preferential terms.

The 2015 Housing Law opens up a number of opportunities for the Government of Vietnam

to develop new programs and refine existing ones. The Law has created a strong foundation, supported by the national assembly and other important public sector stakeholders for Vietnam's housing policy in the coming years. However, there is still much work to be done to plan and prepare specific interventions in the housing sector and to ensure efficient use of public funds. To start with, it is important to clarify where the most urgent needs are to direct government support toward affordable housing, which is discussed in the next chapter on Housing Needs, Demand and Affordability.

Chapter

3 Housing Need, Demand and Affordability

3.1 Housing Need

There are two main sources of housing need: (i) the quantitative deficit of approximately 374,000 units per year due to new urban household formation; and, (ii) an additional 320,000 to 1 million units per year that need improvement or replacement due to the qualitative deficit.

Population growth and household formation trends are the key contributors to the quantitative deficit. The population of urban households is projected to increase by approximately 1.9 million, from 8.3 million in 2015 to 10.1 million in 2020. This results in an average annual need for housing of 374,000 units in the next five years. This increase is driven by a projected urban population growth rate of 3.03 percent per annum and a decline in the urban household size of 1.1 percent per annum, based on recent trends.

Urban areas will dominate demand for new housing between 2015 and 2020. The net migration rate for the urban areas of 23.7 percent, compared to the out-migration of the rural population at 13.3 percent per year, demonstrates the critical need for housing in urban areas. The South East and the Red River Delta regions, where HCMC and Hanoi are located, are expected to account for 66 percent of total urban housing need between 2015 and 2020. More specifically, the South East region has had a very high rate of migration over the last five years due to the region's rapid economic growth and its concentration of industrial zones, which exist in four of its six provinces (Binh Duong, Dong Nai, Vung Tau and HCMC). The situation is similar for the Red River Delta region, where a high demand for labor has made it a destination for migrants over the last five years.

Table 3.1 Number of Urban Households by Year and Geographic Region (in 1,000 units)

Year	Urban Vietnam Total	Hanoi Extraction	HCMC Extraction	Red River Delta	Northern Midlands & Mountain Areas	North Central & Central Coastal Areas	Central Highlands	South East	Mekong River Delta
2009 Actual	6,470	715	1,441	1,572	521	1,155	362	1,952	932
2015 Estimated	8,269	911	1,766	2,026	642	1,429	440	2,619	1,143
2020 Forecast	10,138	1,123	2,084	2,507	759	1,698	515	3,358	1,350
Average Annual Increase	374	42	64	96	23	54	15	148	41
Annual Increase (% Total)	100%	11%	17%	26%	6%	14%	4%	40%	11%

Source: Authors' extrapolations based on data and trends in Census 2009 and GSO data.

Vietnam will need to service, upgrade or rebuild an estimated 4.8 million housing units to address the qualitative deficit. On an annual basis, this means an additional 320,000 to 1 million units each year, depending on whether the deficit is reduced by 2030 or 2020. This includes the housing deficit that is attributed to lack of access to basic infrastructure, aging stock, overcrowding, and construction with substandard materials.

The qualitative housing deficit can be largely attributed to two main categories of housing: (i) non-permanent houses and (ii) houses that lack basic services. Non-permanent units account for 46 percent of the total deficit and are defined as units lacking anyone or multiple of three durability elements (structural frame, roofs or walls) made of sturdy materials. Houses that lack basic services, such as safe water or sanitation, account for 35 percent of the total deficit. Non-permanent units are concentrated in the South East and Mekong Delta regions, (as shown in Figure 3.1 below), where non-sturdy materials are commonly used. While this categorization is in accordance with international standards set by the UN Habitat, the lack of permanent roofing material (3.7 million units) is likely not a priority, given the more moderate climate conditions in the South. On the other hand, the lack of access to basic services, such as safe water or sanitation, which is common throughout the regions, is a major concern.

Specific priorities to address the qualitative deficit include the following:

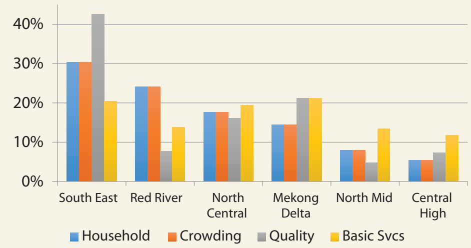
a. ***Installation of low-cost infrastructure and utilities*** to address the 2 million units that lack access to basic services, such as water and sanitation.
b. ***Home improvement*** for units made of substandard materials, which account for 46 percent of the total housing deficit.
c. ***Targeted upgrading and incremental expansion of pre-1975 housing stocks,*** which accounts for approximately 643,000 units, to address overcrowding and substandard materials.
d. ***Extension or new supply for over-crowded units,*** which make up 12 percent of the housing deficit.
e. ***Resettlement*** for housing on unsafe sites may need to be considered in consultation with the community.

Table 3.2 Qualitative Housing Deficit by Type of Housing Deprivation, Urban Vietnam

Census 2009		Urban Vietnam (100%)
Crowding	<6m² per capita	4%
	Sharing units	8%
Quality	Non-permanent	46%
	Before 1975	7%
Basic Services	No safe water	23%
	No safe sanitation	12%

Source: Census 2009. Figures for water and sanitation are imputed based on probabilities from the VHLSS long-form and total population in the 2009 Census.

Figure 3.1 Type of Housing Deprivation by Region as Compared Against Regional Household Distribution (HH Distribution of 6 Regions = 100%)



Source: Census 2009. Figures for water and sanitation are imputed based on probabilities from the VHLSS long-form and total population in the 2009 Census.

3.2 Housing Demand and Affordability

3.2.1 Household Income and Savings Capacity

An analysis of housing affordability shows which households and income segments struggle to access a housing unit to meet their needs. Housing demand is determined by a consumer's purchasing power, measured by their disposable income for housing after satisfying other basic needs (e.g. food, transport), savings and ability to access credit to purchase a property. Housing affordability assesses if a household's demand or purchasing power is sufficient to access a property, considering the available supply and the prices of different housing products in the market (e.g. typologies, sizes, locations, etc.).

Savings or down-payment capacity is extremely limited for low income households. Based on short-form data on household income and expenditures from the Vietnam Household Living Standards Survey (VHLSS), it is estimated that the top three income quintiles have the capacity to save for a down-payment to purchase a home (see Table 3.3). On average, it is expected that households will need to save approximately five years to achieve the standard 20 percent down-payment for a housing loan. However, the lowest two income quintiles have a savings rate close to zero, or with higher expenditures than household income, hence limited ability to save for a down-payment, at least on average. These households may be able to accumulate savings from other sources, as empirical evidence indicates that some Q1 and Q2 segments are still able to mobilize substantial funds toward housing projects.

Table 3.3 Average Savings Capacity by Household Income Quintiles, 2014 (thousand, VND)

Urban Vietnam		Avg HH Income	Avg HH Expenditures	Avg Different (incl. Savings)
Household Income Quintiles	Q5	29,805	21,330	8,475
	Q4	14,279	12,628	1,651
	Q3	10,315	9,353	963
	Q2	7,325	7,270	55
	Q1	3,982	4,338	-356
Total		13,134	10,979	2,155

Source: Authors' calculations based on 2012 VHLSS short form, adjusted for inflation (13%, 2012 - 2014).

3.2.2 Access to Housing Finance

Different income segments are able to access different types of housing finance products. Higher income segments have more flexibility in accessing housing finance while lower income segments rely mostly on microfinance institutions (MFIs) for smaller housing loans for incremental construction. It should be noted that lending institutions in Vietnam generally do not lend to informal income borrowers without proper income and employment documentation or to those borrowers that intend to purchase properties with no formal tenure (i.e. LURC/BOLUC). The main types of housing finance available in Vietnam are described below:

a. ***Mortgage finance*** is currently available at the prevailing floating interest rate of approximately 10 percent, Loan To Value (LTV) of 70 to 80 percent, with a loan tenure of 15 to 20 years. Generally, only consumers with formal employment and/or full documented income can obtain access to mortgage finance.
b. ***VND 30 trillion package*** is a subsidized mortgage program currently available at a maximum fixed interest rate of 6 percent per annum, with a maximum tenure of 15 years and an LTV of 70 to 80 percent for those households who meet strict eligibility criteria, such as first-time home purchase. Refer to Chapter 5.2 for more details on the eligibility criteria of the 30T package.
c. ***Housing microfinance*** is available mainly for Q1 and Q2 income segments. As an example of a product, the effective interest rate amongst microfinance institutions (MFIs) participating in the Vietnam Urban Upgrading Program (VUUP) is approximately 15 to 20 percent per annum[15] with loan tenure of 3 to 5 years.
d. ***Savings*** reportedly finance 50 to 75 percent of the self-built low income housing market. Cash is mobilized from household savings, extended families and friends. In

[15] The effective rate is calculated based on a loan term of 18 months (average) to 60 months (official term), 0.60 percent monthly interest rate calculated on a flat balance, and the effect of forced savings of 1.00 percent per month, on which the MFIs pay 3.00 percent interest. Further fees may apply, which have not been included in the effective rate calculation.

contrast, money-lenders appear not to play a significant role, due to unaffordability (e.g. high interest rates).

3.2.3 Housing Demand and Affordability for Q3-Q5 Income Segments

The effective demand for housing or purchasing power of households in each income quintile has been calculated based on income, payment capacity and access to finance. Shown in Tables 3.4, 3.5 and 3.6, a household's purchasing power is determined by the average monthly income of households in each income quintile, their payment capacity and the availability of different housing finance products of different interest rate and loan terms, which are prevalent in the market. Calculations have been carried out for all urban areas in Vietnam, excluding Hanoi and HCMC, as well as for Hanoi and HCMC separately.

Table 3.4 Effective Demand for Housing by Household Income in Urban Vietnam, excluding Hanoi and HCMC, 2014 (thousand, VND)

Financial Scenario	Income Quintile	Monthly Income	Payment Capacity		Term	Rate	Loan Amount	Down-Payment		Housing Demand
Market-based (constant amort.)	Q5	23,750	40%	**9,500**	20	10%	**760,008**	30%	325,718	**1,085,726**
	Q4	12,753	30%	**3,826**	20	10%	**306,077**	20%	76,519	**382,596**
	Q3	9,308	25%	**2,327**	15	10%	**167,537**	20%	41,884	**209,421**
Market-based (EMI[16])	Q5	23,750	40%	**9,500**	20	10%	**984,444**	30%	421,905	**1,406,349**
	Q4	12,753	30%	**3,826**	20	10%	**396,464**	20%	99,116	**495,580**
	Q3	9,308	25%	**2,327**	15	10%	**216,535**	20%	54,134	**270,669**
30 T package (constant amort.)	Q5	23,750	40%	**9,500**	15	5%	**977,153**	30%	418,780	**1,395,933**
	Q4	12,753	30%	**3,826**	15	5%	**393,527**	20%	98,382	**491,909**
	Q3	9,308	25%	**2,327**	15	5%	**239,338**	20%	59,835	**299,173**

Source: Authors' calculations.

Table 3.5 Effective Demand for Housing byHousehold Income in Hanoi, 2014 (thousand, VND)

Financial Scenario	Income Quintile	Monthly Income	Payment Capacity		Term	Rate	Loan Amount	Down-Payment		Housing Demand
Market-based (constant amort.)	Q5	38,096	40%	**15,238**	20	10%	**1,219,062**	30%	522,455	**1,741,517**
	Q4	22,007	30%	**6,602**	20	10%	**528,174**	20%	132,043	**660,217**
	Q3	16,093	25%	**4,023**	15	10%	**289,679**	20%	72,420	**362,099**
Market-based (EMI)	Q5	38,096	40%	**15,238**	20	10%	**1,579,060**	30%	676,740	**2,255,800**
	Q4	22,007	30%	**6,602**	20	10%	**684,148**	20%	171,037	**855,185**
	Q3	16,093	25%	**4,023**	15	10%	**374,400**	20%	93,600	**467,999**
30 T package (constant amort.)	Q5	38,096	40%	**15,238**	15	5%	**1,567,365**	30%	671,728	**2,239,093**
	Q4	22,007	30%	**6,602**	15	5%	**679,081**	20%	169,770	**848,851**
	Q3	16,093	25%	**4,023**	15	5%	**413,827**	20%	103,457	**517,284**

Source: Authors' calculations.

[16] EMI = Equated Monthly Installment

Table 3.6 Effective Demand forHousing by Household Income in HCMC, 2014 (thousand, VND)

Financial Scenario	Income Quintile	Monthly Income	Payment Capacity		Term	Rate	Loan Amount	Down-Payment		Housing Demand
Market-based (constant amort.)	Q5	41,306	40%	**16,522**	20	10%	**1,321,786**	30%	566,480	**1,888,266**
	Q4	15,639	30%	**4,692**	20	10%	**375,335**	20%	93,834	**469,169**
	Q3	11,760	25%	**2,940**	15	10%	**211,681**	20%	52,920	**264,601**
Market-based (EMI)	Q5	41,306	40%	**16,522**	20	10%	**1,712,120**	30%	733,766	**2,445,885**
	Q4	15,639	30%	**4,692**	20	10%	**486,174**	20%	121,544	**607,718**
	Q3	11,760	25%	**2,940**	15	10%	**273,590**	20%	68,397	**341,987**
30 T package (constant amort.)	Q5	41,306	40%	**16,522**	15	5%	**1,699,439**	30%	728,331	**2,427,770**
	Q4	15,639	30%	**4,692**	15	5%	**482,574**	20%	120,643	**603,217**
	Q3	11,760	25%	**2,940**	15	5%	**302,401**	20%	75,600	**378,001**

Source: Authors' calculations.

Effective demand for housing for the top three income quintiles range from VND 1-2 billion for the Q5 segment, and VND 200-800 million for the Q3-Q4 segments. This consists of the following:

- Q5 income segments can afford housing solutions of approximately VND 1.8 to 2 billion in Hanoi or HCMC. Households living in cities outside of Hanoi and HCMC are able to afford homes in the range of VND 1 to 1.2 billion.
- Q3 and Q4 income segments can afford housing solutions between VND 300 to 700 million in Hanoi and HCMC. With the 30 trillion package, the Q3 and Q4 segments are able to stretch their purchasing power and afford homes in the range of VND 400 to 800 million. Ignoring the likely inflationary effect of subsidies, the 30T package expands a household's nominal purchasing power by approximately VND 100 million through the subsidized interest rate. However, depending on inflationary pressures, the real affordability improvement may be significantly less.
- Q3 and Q4 income segments living in urban areas outside of Hanoi and HCMC can afford housing products in the range of VND 200 to 400 million. With the support from the 30T package, households are also able to stretch their purchasing power by approximately VND 100 million, to the range of VND 300 to 500 million.

Assuming the same interest rate, an Equated Monthly Installment (EMI) approach to the mortgage repayment schedule extends affordability significantly, allowing the households across all incomes to purchase a home valued up to 30 percent higher than under the Constant Amortization (CA) method. The traditional mortgage product that banks in Vietnam offer to mortgage borrowers uses the CA method. While some banks do offer EMI products, most consumers are familiar with and prefer the CA method, despite the limitations to affordability.

Housing affordability is concerned with the availability of supply of suitable housing products that are within the purchasing power of households. Considering this, housing affordability is excellent for households in the Q5 income segment and acceptable for households in Q3 and Q4 income segments, with the support of the 30T package. Without the 30T package, affordability for the Q3 segment would be tighter in urban areas outside of HCMC, where the supply of low-cost housing is more constrained.

- For the Q5 income segment, there is ample supply of housing at various price points that are affordable to this group, from developer-built condominiums, villas or high-end tube houses.
- For the Q3 and Q4 segments, the supply of housing that households could afford varies greatly, depending on the region.
  - In HCMC, developers have begun building smaller and lower priced units, starting at VND 400 million to attract first-time home-owners in the Q3 segment. Affordable housing supply, priced at below VND 16 million/m2, has now reached approximately 40 percent of total developer-built supply in HCMC[17].

- Developers in Hanoi have been slower to address this under-served market sector due to the higher price of land. Thus, supply of low-cost housing only makes up ~20 percent of total developer-built supply in Hanoi and units that are affordable to first-time home-owners in the Q3 income segments are likely to be located far from centrally-located areas.
- Besides developer-built condominiums, low-end tube houses with prices in the range of VND 400-500 million in peri-urban areas exist. The trade-off then revolves around individual preference between accessibility, livability and affordability.

3.2.4 Housing Demand and Affordability for Q1-Q2 Income Segments

For the bottom 40 percent of the income pyramid (the Q1 and Q2 income segments), housing demand is more constrained. Lower purchasing power amongst the low income reflects a household's lower share of disposable income, savings and ability to access housing credit.

Incremental housing construction appears to be the only affordable housing option for the urban poor. MFIs in Vietnam generally support low income households with shorter-term loans for incremental home expansion or improvement at an effective rate of approximately 15 to 20 percent for loan amounts of around VND 10 to 30 million. Tables 3.7, 3.8, 3.9 highlight that households in the Q1 and Q2 segments could generally repay a loan of VND 15 million to MFIs within 18 months on average. Penalty-free pre-payments benefit households by allowing for more flexible payment schedules, despite longer loan terms (typically 5 years). This flexibility also accommodates the needs of the poorest households who typically require the entire loan period for repayment. In addition, convenient community-based collection systems promote repayment discipline. Should households be able to rely on own savings and/or kinship networks for funding, a household's purchasing power and affordability can be stretched much further depending on the generosity of the loan term and rate. If so, a starter home of VND 100 million, or even above, may be within reach.

Table 3.7 Housing Demand by Household Income in Vietnam, excluding Hanoi and HCMC, 2014 (thousand, VND)

Financial Scenario	Income Quintile	Monthly Income	Payment Capacity		Term	Rate	Loan Amount	Housing Demand
Kinship	Q2	6,643	20%	**1,329**	5	0%	**79,715**	**79,715**
	Q1	3,559	15%	**534**	5	0%	**32,028**	**32,028**
Micro-finance	Q2	6,643	15%	**996**	1.5	20%	**15,386**	**15,386**
	Q1	3,559	15%	**534**	3.2	20%	**15,051**	**15,051**
	near-poor	2,717	10%	**272**	5.0	20%	**10,255**	**10,255**
	poor	2,090	10%	**209**	5.0	20%	**7,889**	**7,889**

Source: Authors' calculations.

Table 3.8 Housing Demand by Household Income in Hanoi, 2014 (thousand, VND)

Financial Scenario	Income Quintile	Monthly Income	Payment Capacity		Term	Rate	Loan Amount	Housing Demand
Kinship	Q2	11,245	20%	**2,249**	5	0%	**134,944**	**134,944**
	Q1	6,612	15%	**992**	5	0%	**59,509**	**59,509**
Micro-finance	Q2	11,245	15%	**1,687**	0.8	20%	**14,850**	**14,850**
	Q1	6,612	15%	**992**	1.5	20%	**15,315**	**15,315**
	near-poor	4,180	10%	**418**	5.0	20%	**15,777**	**15,777**
	poor	3,135	10%	**314**	5.0	20%	**11,833**	**11,833**

Source: Authors' calculations.

[17] CBRE reports for Quarter 3, 2014.

Table 3.9 Housing Demand by Household Income in HCMC, 2014 (thousand, VND)

Financial Scenario	Income Quintile	Monthly Income	Payment Capacity		Term	Rate	Loan Amount	Housing Demand
Kinship	Q2	8,721	20%	**1,744**	5	0%	**104,652**	**104,652**
	Q1	4,904	15%	**736**	5	0%	**44,136**	**44,136**
Micro-finance	Q2	8,721	15%	**1,308**	1.1	20%	**15,386**	**15,386**
	Q1	4,904	15%	**736**	2.1	20%	**15,036**	**15,036**
	near-poor	7,315	6%	**439**	5.0	20%	**16,566**	**16,566**
	poor	5,573	5%	**279**	5.0	20%	**10,518**	**10,518**

Source: Authors' calculations.

Households in Q1 and Q2 segments, without existing plot or homes, face the largest affordability gap. This group includes migrant workers and newly-formed families. Home purchase for these segments would be difficult considering both supply and demand sides. On the demand side, their limited ability to save for a down-payment and their low and volatile income are key obstacles to access adequate credit to purchase a starter home or self-build. In addition, supply of low-priced incrementally expandable starter homes for this segment is also limited and self-built solutions would depend on the ability to access low-cost land, which is not in ready supply. Identifying, designing and producing a suitable, formal housing solution for this market is considered critical to prevent the need for informal urbanization.

3.3 Housing Policy Implications

The key focus areas for housing policy based on the analysis of housing need, demand and affordability are as followed:

a. ***Low income Q1 and Q2 income segments with no housing,*** such as migrants and newly-formed families, have the most urgent housing need given their limited savings, income and credit capacity to fully self-provide. These groups will need support for a diverse range of solutions, including rental, rent-to-own and core starter homes, particularly in urban areas.

b. ***Low income Q1 and Q2 segments who need housing upgrades*** will need support to supplement their capacity to self-build through the use of housing microfinance and access to construction technical assistance.

c. ***Supply of affordable units for the Q3 income segment.*** Continued support and encouragement for developers to produce an adequate supply to satisfy the Q3 first-time home-owners with purchasing power in the VND 300 to 400 million range is critical, in Hanoi in particular, where supply is still inadequate.

d. ***High-growth cities and industrial zones.*** Industrial zones and urban regions with a high rate of growth, including the South East and Red River Delta regions, should be the focus of housing policy given the high demand for housing.

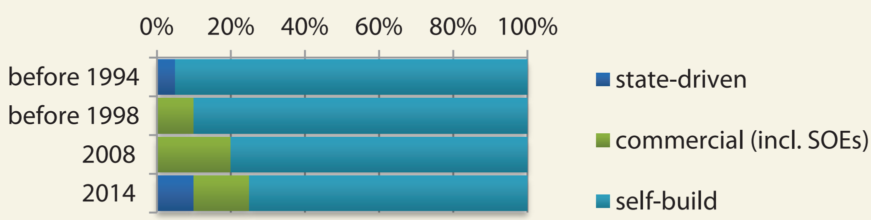
Chapter

4 The Housing Supply and Delivery System

4.1 Housing Sector Context

Housing production can be segmented into several sub-markets: state-driven, commercially-produced, and self-built housing development. Between 1975 and 1994, the state produced all formal housing, which only accounted for a minor fraction of total production, an estimated 5 percent. Self-built housing was the most common form of housing supply, produced mostly informally by both households and emerging micro-developers, as commercial production was not legally permitted. The government stepped away from formal production when it introduced land use rights in 1994, leaving production to the commercial sector and households themselves. State-Owned Enterprises (SOEs) were the dominant source of housing supply from 1994 to 1998, at which point supply from private developers overtook and has led in total volume of new housing produced from 1998 onwards. Currently, it is estimated that the share of commercial and state-supported production accounts for approximately 20 to 25 percent of total output. The majority of housing production, or around 75 percent, is still in the self-built or citizen-initiated sector.

Figure 4.1 Changes in Housing Production over Time



Source: Author's illustration, based on anecdotal findings.

Average annual housing production has increased by over 50 percent from 320,000 units per year in 2009 to 500,000 units per year in 2014. MoC relies on data from the General Statistics Office (GSO) to obtain information on housing stock, average size and typology mix. Table 4.1 shows the estimated average annual production for urban housing between 2009 and 2014. Annual housing production for urban areas has averaged at 500,000 units between 2009 and 2014, with the average home size increasing to 84 m^2 per unit and 23 m^2 per capita by 2014 (compared to 70 m^2 per unit and 19 m^2 per capita in 2009).

Table 4.1 Average Annual Housing Production in Urban Areas

Housing Indicators for Urban	2009	2014
Housing Stocks (in MM M2)	476	689
Per Capita M2	19.2	23.0
Average No. Persons/ HH	3.66	3.64
Average Home Size (M2)	70.3	83.7
Avg Annual Production (in MM M2)	23	35
Avg Annual Production (in units)	**~320,000**	**~ 500,000**

Source: GSO 2009 Census and 2014 Inter-Censal Survey. Note that average production = (urban housing stocks 2014 – urban housing stocks 2009)/average home size.

Housing stock in Vietnam is relatively new, with 59 percent of housing being built since 2000. As per the 2014 Inter-Censal Survey, there has been a significant increase in new stock over the last five years as the newly built stock since 2000 has increased from 50 percent in 2009 to 59 percent of overall stock in 2014. The remaining 41 percent of housing is divided as followed: 37 percent built and in use since 1975, and only 4 percent of stock that was built prior to 1975.

Table 4.2 Share of Housing of Each Typology

Area	Permanent	Non-Permanent	Temporary	Simple
National Total 2009	46%	38%	8%	8%
National Total 2014	47%	44%	6%	4%
Urban Split 2014	42%	54%	2%	1%
Rural Split 2014	49%	39%	8%	5%

Source: GSO 2009 Census and 2014 Inter-Censal Survey

The number of homes categorized as 'temporary' and 'simple' have decreased significantly over the last five years. The GSO classifies housing into four typologies, permanent, non-permanent, temporary and simple, as shown in Table 4.2. Temporary and simple homes have decreased significantly over the last five years from 16 percent to only 10 percent of total housing stock by 2014. Not surprisingly, rural areas have far worse quality of housing, with only 49 percent categorized as permanent. Table 4.3 describes the common housing typologies that are found around Vietnam in more detail.

Current housing related data, when available, are somewhat fragmented and not fully reliable for public policy development and investment decisions. In the private market, international real estate agencies already carry out data collection of developer-built supply and home price indices (HPIs). CBRE, Savills, Knight Frank, and Jones Lang LaSalle have experience in collecting developer housing supply data for Hanoi and HCMC. Introduced in 2009, the Savills Property Price Index (SPPI) is the first private home price index based on customer surveys, housing advertisements and public auction contracts as a proxy to actual transaction price. There have also been efforts by local governments. The Hanoi Department of Construction (DoC) has started to publish a home price movement report on the developer-built apartment segment for ten main districts. Likewise, HCMC's DoC is expected to publish its first home price movement report in 2015. Meanwhile, MoC is in the process of developing a system for collecting housing and real estate information, as outlined in the 2015 Housing Law and the Prime Minister's Decision 134.

Table 4.3 Example of Various Common Housing Typologies

Permanent Construction Accounts for 42 percent of total urban housing stocks	
Tube house	Narrow and long plot, with typical plot size of 4 x 25 meters. Typically 100 percent plot coverage and 3-4 floors, but can be 6 floors or more. Houses with good frontage typically feature a commercial ground floor.
Alley house	Tube house typology, but smaller and located in small alleys. Typically 100 percent plot coverage. Accounts for more than 50 percent of total permanent construction stocks.
Apartment block	Type 1: Older social or collective housing built between 1960s and mid-1980s with funding from the Soviet Union. Mostly exists in the North and much stock is in poor conditions. Typically ground floor, plus 7 stories (G+7). Type 2: New high quality blocks built by developers. Average G+18. Typical starting price of VND 12M/ m^2. Starting unit size of 40 m^2. Type 3: New resettlement housing and social housing. Typically G+5 to G+12. Average unit size of 40 m^2.
Villa	Type 1: Older colonial style built during French era. Typically with garden or surrounding grounds. Refurbished for rental. Type 2: New luxury villas. Can be built by individuals and located within private compounds, or be part of large housing projects built by developers.

Table 4.3 Example of Various Common Housing Typologies (continued)

Non-Permanent Construction Accounts for 54 percent of total urban housing stocks	
Alley house	A precursor to the permanent construction alley house. Located within deeper areas of alleys. Average plot size of 3 x 20 meters. Poor construction quality. Typically G+1. Typically old and in need of upgrade.
Small single-story	Average size of 3 x 20 meters. New informal buildings with single rooms. Typically for rent and located in urban fringe areas.
Temporary and Simple Construction Accounts for 3 percent of total urban housing stocks	
Rural old house	Older rural houses located in urbanizing villages in urban fringe areas.
Squatter house	Precarious squatter housing located on undesirable and non-residential areas, such as canals, roadsides, unused industrial areas, or open-air market spaces.

Source: Adapted from UN-Habitat

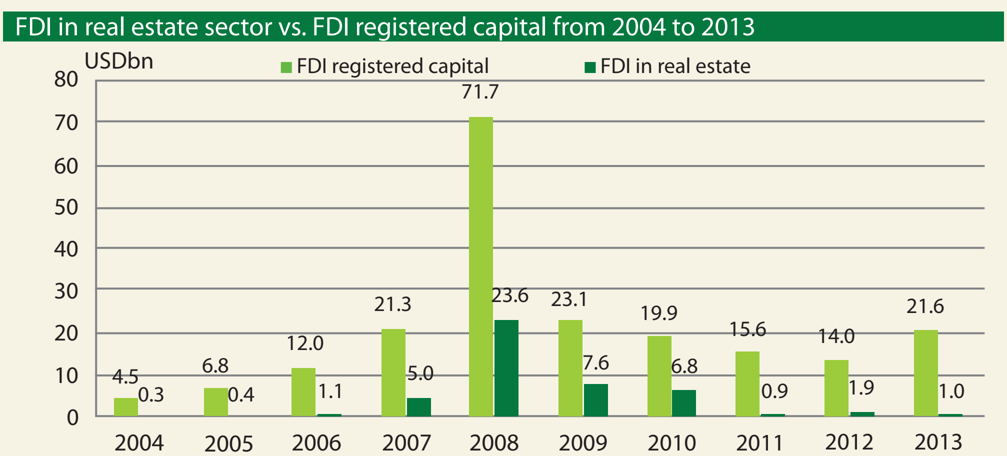
4.2 Commercial Housing Sector

4.2.1 Overview of the Commercial Housing Sector

After Doi Moi, Vietnam's real estate sector as a whole, and the residential real estate in particular, has experienced three major downturns. These downturns can be attributed to underlying market challenges of speculation, high dependency on FDI[18], and shifts in housing sector regulations. The most recent downturn has led to sector-wide consolidation, leaving the most financially strong and capable developers, while weeding out weaker ones. The housing bubble from 2009-2012 has led to a stagnation of housing production, scarcity of liquidity, and a sizable inventory of high-end housing stock needing completion or uptake. Developers who have remained active benefited from particular competitive advantages, such as land reserves, strong product propositions, solid branding, and access to diverse capital sources.

Housing developers are diverse in size and target different market segments. Sixty real estate enterprises are listed on Vietnam's two stock exchange platforms. As of March 2014, these real estate actors account for VND 125 trillion[19] or ~10 percent of the stock market's

Figure 4.2 Share of Foreign Direct Investment (FDI) in Real Estate



Source: VPBS

[18] FDI peaked in 2008 prior to most recent housing bubble as per Figure 4.2.

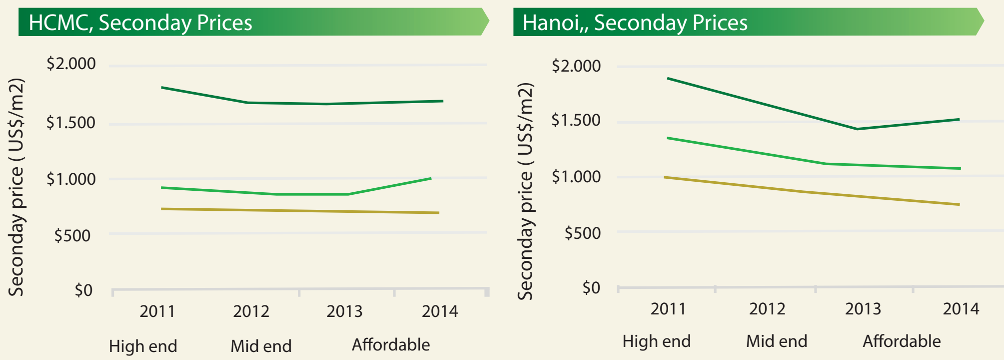
[19] VPBS Real Estate Industry, March 2014.

capitalization. As of year-end 2013, Vingroup is the largest listed player, with market capitalization and revenues at USD 3.5 billion and USD ~350 million, respectively. Of the developers not listed, some are large in scale while others are smaller, ranging from small household contract builders to medium-sized contractors. Aside from private enterprises, many SOEs with land also participate in the sector.

The financial health of developers varies greatly. While some developers have no debt, others, such as the prominent Vingroup, are highly leveraged. Highly-leveraged developers can experience a crisis in liquidity due to unexpected events, such as delays in construction or in pre-sales efforts. These events can be caused by macro-economic factors and bode challenges for the sector, as a whole, when occurring at scale.

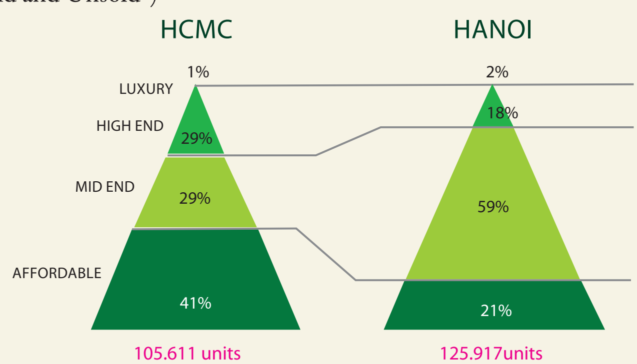
The housing bubble rebalanced market price points to a more affordable level. Following widespread speculation, real estate prices reduced after the market downturn. The most severe home price declines were experienced in the high-end and middle-market segments until 2013. At the same time, the bubble has shifted production away from the speculative high-end market to the previously under-supplied affordable housing sector where there was continued real demand from first-time home-buyers, primarily in the Q3 and Q4 income range. Tracking of real estate production in Hanoi and HCMC by CBRE indicated that 41 percent of HCMC's total accumulated production since 1999 was in the affordable segment. In comparison, the affordable housing segment makes up 21 percent of Hanoi's production.

Figure 4.3 Secondary Prices for HCMC and Hanoi



Source: CBRE Vietnam reports, 2014.

Figure 4.4 Total Accumulative Supply from 1999 to Quarter 3, 2014 (Both Completed & Under-Construction; Sold and Unsold*)



Source: CBRE Vietnam Reports, 2014.
*CBRE definitions: (i) affordable is <VND 16M/ m²; (ii) non-affordable includes (a) mid-end at VND 16-30M/ m², (b) high-end at VND 30-50M/ m², and (c) luxury at >VND 50M/ m².

Oversupply of high-end housing is decreasing. In January 2013, the MoC began tracking the volume of oversupply, primarily in the high-end segment. Assuming the same absorption rate achieved in 2014, the current Months-in-Inventory ratio[20] of housing in Vietnam is at 38 months, with the majority of the projects being in HCMC. Developers are addressing affordability by shrinking unit size and increasing production of 1-2 bedroom units. Comparing units sold before 2012 to units sold after 2012, the average size of 1-bedroom units has decreased from 50 m² to 48 m² and average size of 2-bedroom units have decreased from 91 m² to 75 m². The number of 1-2 bedroom units has increased from 66 percent of total production prior to 2012 to 72 percent of total production after 2012.

Table 4.4 Housing Months-in-Inventory

Unit	Hanoi	HCMC	Others	Vietnam Total
Units Sold (Feb-Dec '14)	1,954	1,134	3,733	6,821
Inventory @ YE 2104	4,306	7,141	14,458	25,905
Inventory In Months	**22**	**63**	**39**	**38**

Source: MoC, 2014.

4.2.2 The Cost Structure of Commercial Housing Development

Developers are building market housing for the Q3 and Q4 income segments with a 10-15 percent profit margin outside of social housing programs. As per the affordability analysis in Chapter 3, units in the price range of VND 260 to 620 million are within the affordability range of Q3 and Q4 income segments, without any government subsidy. As such, developers have recognized this market opportunity and have begun constructing units to respond to consumer demand, particularly in HCMC, where a wide range of products have become available, some priced as low as VND 400 million. Affordable housing produced by the commercial sector tends to be located 30 to 45 minutes from the central business district, are within reasonable distance of community-based facilities such as shops, fitness centers, and day care centers and rely on access by car or motorcycle.

Table 4.5 Affordability Analysis for Hanoi and HCMC (refer to Chapter 3)

Income Segments	Mo. HH income (VND MM)	Capacity To Pay[1] (VND MM)	Loan Amount[2] (VND MM)	Home Price[3] (VND MM)
Hanoi Q3	16.1	4.0	290	362
Hanoi Q4	22.0	6.6	528	625
HCMC Q3	11.8	2.9	212	265
HCMC Q4	15.6	4.7	375	470

Assumptions: (1) Capacity to pay = 30% and 25% of HH income for Q4 and Q3, respectively; (2) Market rate of 10%; 20 / 15 year term for Q4 and Q3 respectively; (3) 20% down payment. Loan amount is calculated based on Constant Amortization Repayment method.

Developers are able to provide affordable homes for the Q3 and Q4 segments using different development and business models. Table 4.6 outlines the cost structure of two example cases, hereby referred to as DevCo A and DevCo B. While DevCo B produces smaller units, both developers are able to provide consumers with an acceptable price point of VND 12 million/m², an affordable entry point for newly-formed households and low income consumers. DevCo A is a listed company with a diversified and international capital base and puts emphasis on marketing. DevCo B is self-funded and spends very little on marketing. The contrast between these developers and their business models, when coupled with consideration for their shared target segment and similar development cost, bodes well for the possible growth and diversity of the affordable housing segment.

[20] Months-in-Inventory is calculated based on inventory on hand divided by the average monthly consumption of sales.

Table 4.6 Example of Cost Structure for Two Developers

	In VND '000 per m²		% of Sales Price w/o VAT	
Comparative Developer Cost Structure	DevCo A Home	DevCo BHome	DevCo A Home	DevCo BHome
Construction Cost	**5,500**	**6,413**	**50%**	**58%**
Land Cost (include land use right)	2,200	2,000	20%	18%
Marketing / Sales Cost	990	190	9%	2%
Project Management Cost	660	238	6%	2%
Finance Cost	220	476	2%	4%
Other Costs	-	190	-	2%
Total Cost of Goods Sold	**9,570**	**9,506**	**87%**	**86%**
Profit before Tax	1,430	1,494	13%	14%
Profit Tax (22%)	315	329	3%	3%
Profit after Tax	**1,115**	**1,165**		
Developer Profit Margin	**10%**	**11%**	**10%**	**11%**
Sales Price w/out 10% VAT	**11,000**	**11,000**		
Sales Price w/ VAT	**12,100**	**12,100**		
Home Size	**40**	**34**		
Home Price (VND '000)	**484,000**	**411,400**		

Source: Interviews with developers.

Many developers provide unique customer financing schemes to address consumer challenges in accessing housing finance. DevCo A offers a promotional scheme where it pays interest payments on behalf of buyers during the construction period. Meanwhile, DevCo B implements a 50-month interest-free payment scheme where customers earn a 50-year lease upon payment completion. DevCo B's progressive scheme frees buyers from the complication of having to obtain a bank loan and notably allows informal-income consumers a pathway to home ownership. DevCo B's projects generally sell out within 3 months of pre-sale without a marketing program due to its unique consumer financing model and low price point. DevCo B is confident to take the credit risk because in the event of a buyer's default, the developer is able to repossess and resell quickly given the high demand for properties at such a low price-point.

4.2.3 Policy Challenges and Opportunities in the Commercial Housing Sector

The 30T Package has been successful in bringing existing developers down market and facilitating the emergence of new entrants. Of the list of the MoC's 100 approved development projects eligible for 30T Package funding, a significant portion are new entrants, contractors moving up market or large corporations in other sectors moving into the housing space with existing land reserves. Of the 34 projects approved by the MoC as of November 31, 2014, 50 percent of units were converted to affordable from commercial housing. It remains to be seen how these players will behave upon the 30T Package's termination, but the increased interest and investment in the affordable segment bodes well.

Yet, policy incentives for social housing development still can be strengthened to interest a larger number of private developers. Incentives are laid out in Decree 188 – Article 12:

a. Exemption from land use right fees.
b. A preferential VAT rate of 5 percent, reduced from the normal rate of 10 percent.
c. Corporate Income Tax rate of 10 percent, reduced from a normal rate of 20 percent.
d. Trunk infrastructure hookups outside the perimeter of the project are reimbursed by the local government budget.

The incentives reflect international practices around supply-side government support, but challenges lie in execution. Reimbursement of infrastructure development can be slow and burdensome, particularly when local governments lack fiscal and technical capacity. Procedures associated with verification of consumer eligibility for social housing benefits are complex, creating a hurdle for developers to offload units. In addition, incentives are accompanied by caps. Profit margins for social housing projects cannot exceed 10 percent, so that some private developers and SOEs perceive participation in social housing development as a social obligation and not necessarily an economically attractive pursuit. These bottlenecks may deter participation of a larger number of developers.

The housing market crash has filtered out less competent developers and led to mergers and acquisitions that consolidate and strengthen the sector. Many developers have engaged in mergers and acquisitions to strengthen capital base and operations. Yet more went bankrupt and exited the sector entirely. Remaining developers have proven capacity to weather economic downturns, scale in operations where necessary, and establish long-term branding and product strategies that prioritize sector growth over deal-based profits.

There is new confidence in the commercial housing market. The SBV policy in addressing banks' bad debt through the creation of Vietnam Asset Management Company (VAMCO) and banks consolidation has boosted confidence in the market and re-activated credit flow. Many commercial banks have once again started lending to developers. Yet many more are strategically shifting to consumer lending, thereby creating a competitive environment with more mortgage options for buyers. Loosening of foreign ownership regulations also helps to boost investor and developer confidence and is expected to increase the flow of FDI into the housing market, particularly for condominiums.

Yet, the commercial housing market is still vulnerable to external shocks and speculative bubbles. The supply boom of the early 2010s, its resulting backlog, and this renewed surge in housing production are leading toward another over-extension of resources. The housing sector has yet to absorb ~25,000 units of pre-bubble housing. Stimulated by the 30T Package, 65,000 additional affordable units are expected to come into the market over the next two years. The market shows signs of heating up post-housing bubble, leading to fierce competition between incumbent and new developers. Such competition might bode well for consumer choice and market development if properly directed to meet actual demand, and if not, the risk of another future bubble exists.

Access to land in major cities remains a major challenge for commercial production of affordable housing. Urban land, particularly in large cities, is scarce, expensive and difficult to assemble. The high density and high number of small plots in city centers have made land access a challenge. A handful of prominent developers have land reserves that have been assembled ahead of the surge in land prices. However, even those land reserves are running out, requiring developers to reassess their long-term growth strategy to adapt to scarce land resources. Policy efforts to introduce inclusionary zoning and allocate land for social housing development have not been effective and require strengthening of compliance management and procedures (see Chapter 6). However, recent plans for infrastructure development through metro lines, urban upgrading, and redevelopment create a positive backdrop for new development activities. As cities increase infrastructure development and urban planning projects, previously undesirable locations close to city centers now can be released, opening up new residential development opportunities.

Changes and uncertainty in development regulations can introduce complications for developers. Developers must balance an extensive set of regulatory measures and documents required at both the central and local government levels. Urban planning guidelines can have impact on the costs of site infrastructure, internal roads and green spaces. Aside from administrative procedures, developers must also account for periodic changes in regulations and resulting cost implications. Though necessary from a governance standpoint, the abundance of regulations will be able to better support sustainable development and increased affordability for end users if streamlined with more consistency, transparency and ease of understanding and use.

In the construction sector, variability in the quality of construction still needs to be improved. There is a new government focus on developing the construction sector to reduce the prevalence of faulty and sub-standard construction work and to enhance the skills of laborers as a means to support economic development. Decision 134 of January 2015 on Restructuring the Construction Sector focuses on these issues, as well as the use of a Public-Private Partnerships (PPP) to support housing development. To support growth and improved quality, the construction sector will need to apply more stringent enforcement of minimum standards and professional workforce training. Meanwhile, households with need for self-built housing largely turn to small contractors to carry out construction. This sector remains largely fragmented and informal, yet employs a significant portion of the workforce.

Finally, to ensure high resale potential and value in the long term, creation and management of Home-Owners' Associations (HOA) also must evolve to meet international standards. Living in large-scale development projects is still a very new phenomenon for Vietnamese home-owners, and managing the common areas is equally new to the local developers. Currently, most developers opt to conduct ongoing management and operations of condominiums and price the HOA services at a percentage of the sales price (e.g. around 2 percent), payable at the time of home transfer. There still lacks any guidance or role models in the market on best practice in management of high-rise and condominium blocks and how an HOA can be effectively operated.

4.3 Rental Housing Sector

Demand for rental housing is high in urban areas and increasing. According to the 2009 Census of Population and Housing, rental housing makes up approximately 15 percent of Vietnam's housing stock, or 3.3 million units nation-wide. The rate of rental housing is higher in urban areas (up to 26 percent of households in HCMC), among migrants (64 percent of migrants in HCMC and Hanoi live in rental housing) and among lower-income households[21]. As Vietnam becomes more urban and as the youth population becomes more mobile in search of education and work, demand for rental housing is also expected to increase, particularly in Vietnam's cities and industrial centers. Assuming a 25 percent share of rental out of total new annual overall demand (refer to Chapter 3), rental would account for 95,000[22] units per year. To reduce the qualitative deficit by 2030, an estimated 80,000 of improved or rebuilt rental units would need to be addressed, and if the GoV were to attempt to reduce the deficit more quickly, by 2020, then roughly 250,000 units per annum would need to be addressed.

Rental housing demand is concentrated among students, newly-formed families, migrant workers, and low income families. Rental housing is an important option for newly-formed and low income households, students, and migrant workers. This is particularly true in large cities, like Hanoi and HCMC, where more than 70 percent of migrants are between the ages of 15 and 30, compared to about 40 percent in the same age group among city residents. The proportion of housing ownership for migrants in these cities was only 8.7 percent in 2010. Over 90 percent of migrants live in rented housing, cramped shared quarters with relatives, temporary shelters on construction sites, or workshops or shops. Rental housing is important for socio-economic growth because it enables worker mobility and options for those who are unable to access mortgages or do not want to buy housing.

Industrial zone workers contribute to a large share of rental housing demand. In Quarter

[21] Based on the 2009 Census and the 2009 Urban Poverty Study conducted in Hanoi and Ho Chi Minh City.

[22] The number of urban households is estimated to increase by approximately 2.2 million from 9.1 million in 2015 to 11.3 million in 2020 driven by urban population growth rate of 3.03% per annum and a decline in the urban household size of 1.36% per annum, based on recent trends in both indicators. If 25% are estimated as rental housing, this results in an annual need of around 95,000 (of 374,000) units of rental housing demanded.

3 of 2014, out of the 15.8 million people who are employed in urban areas, 3.05 million belong to the manufacturing sector, with 2.25 million people working in 295 industrial parks and 15 economic zones across the country. Among industrial workers, roughly 40 percent are between the ages of 15 and 29 and approximately 78 percent of people, rent their dwellings. It is estimated that formal supply is only sufficient to respond to 10 percent of this rental housing demand, indicating that most people end up renting informally, and there is substantial unmet need in industrial zones for adequate rental and starter home options.

Existing affordable rental housing in Vietnam is mainly informal and substandard. There is limited information on the 15 percent of the total housing stock that is rental. Empirical studies indicate that the commercial rental market is still very small, mainly catering to high-end consumers. There are also limited public stocks of rental housing for government workers, military officials and students, or of rental worker housing provided by larger companies in industrial areas. Much of the rental housing in Vietnam is made up of single rooms provided by private landlords in dense and often-informal neighborhoods

Box 4.1 Industrial Zones in Vietnam

Vietnam has had a long-standing goal to transform from an under-developed agricultural country into an industrialized nation. Following the success of industrial parks in Taiwan, Korea and China, Vietnam also adopted this policy to attract foreign investment into export-oriented manufacturing sectors in the late 1990s. This policy was used primarily to accelerate economic growth and shift labor into higher-productivity sectors and has been largely successful. By 2011, industrial manufacturing was the most popular sector for FDI in terms of both registered capital and projects, accounting for 7,987 or 58.5 percent of projects and USD 93.05 trillion or 47 percent of total FDI.

By 2014, Vietnam had developed around 295 industrial parks and 15 economic zones around the country. These industrial zones have been primarily concentrated in peri-urban areas close to Ho Chi Minh City and Hanoi and have prompted large volumes of temporary migrants. There are now an estimated 2.25 million people living and working in industrial zones, of which 75 percent are migrants and 40 percent are between the ages of 15 and 29. Initially these zones were planned exclusively for industry and did not provide space for social services or housing, even though they have attracted a high level of migrants. New regulations on industrial zones now require housing to be incorporated into site plans and there have been 63 social housing projects completed to support industrial workers, primarily dormitories, and several companies have also invested housing for employees. However, creating a healthy environment and ensuring that there is adequate accommodation for workers still remains a major challenge for Vietnam, which will be critical to support the success of its industrialization policy.

Figure 4.5 Distribution of Industrial Companies across Provinces

Provinces	N	%
Hanoi	161	16.1
Vinh Phuc	13	1.3
Bac Ninh	16	1.6
Hai Phong	71	7.1
Da Nang	25	2.5
Binh Duong	264	26.4
Dong Nai	150	15
Ba Ria Vung Tau	20	2
HCMC	281	28.1
Total	**1001**	**100**

Source: UNIDO Vietnam Industrial Investment Report, based on market research and rented by youths and migrant workers. This rental housing is exchanged informally, where contracts are usually verbal rather than written[23]. Units are often small[24], in poor conditions, and lack basic amenities, such as clean water, electricity, and sanitation[25]. In addition, units are often overcrowded, and tenants are insecure and unable to prove their residency to obtain Ho Khau registration to access other welfare benefits when necessary. Furthermore, landlord-tenant laws are basic and underdeveloped in nature and cannot be applied to the informal rental segment.

The low level of formality faced by many tenants has a significant impact on livelihood opportunities and may magnify vulnerability to poverty. The Ho Khau system was introduced in urban areas in 1955 and is tied to place of residence. In the past, particularly before Doi Moi, it was strictly enforced and linked to the ration system. Post 1990, it is still required for administrative procedures, including buying land, building houses, registering motor vehicles, and receiving public welfare benefits. Hence, the lack of written housing rental contracts means that migrants cannot obtain permanent registration status and have to remain either a temporary or unregistered resident (KT3 or KT4 status) without full access to public services within their district of residence or registration. Unregistered migrants make up approximately 20 percent of the population of larger cities[26], and have been shown to face higher costs of housing, water, and electricity. Registration status has a major impact on education, access to healthcare, and income. Only 64.6 percent of non-registered children between 6 and 17 attend public schools, compared to 82.4 percent of residents. Migrants are half as likely as residents to visit a doctor, with visitation rates at 23.4 percent compared to 11.4 percent. Finally, workers without registration are paid 9 percent less on average, even though they work 10 more hours than registered residents per week and are far more likely to be working than residents, with 85 percent versus 59 percent employment rates respectively.

Despite rising demand and need, the supply of formal affordable rental housing appears to be limited. There is little data on rental housing supply, though evident strongly suggests a majority of rental housing is linked to citizen-initiated informal housing. Of the estimated 3.3 million housing units constructed between 1999 and 2009[27], around 60 percent or some 1.6 million units were small, single-story informal housing units mainly located on urban fringes. The majority of this informal construction was residential and almost all are owner-occupied. Meanwhile, an unknown but sizeable minority of this construction was used for single room rental mostly to migrant workers. The supply of formal rental housing in Vietnam is limited by several issues: (i) the economics of the rental market are not attractive for developers due to the low payment capacity of low income households (<VND 0.5M/ month for Q1); (ii) high standards and complex legal requirements for the formal provision of rental housing; and, (iii) poor market perception of the sector.

[23] The Qualitative Assessment of Rental Housing estimated that 80-90% of rental housing contracts were verbal or without formal agreement.

[24] The Qualitative Assessment also found that most rooms for rent are between 9-16m2, with the area per capita in the range between 3-4m2, often with shared toilet, arranging a kitchen themselves and normally sleep on individual mats.

[25] The 2009 Urban Poverty Survey found that rented and temporary housing have higher rates of shared latrines and poorer access to water and electricity than owner-occupied housing. For example, households who live in rented housing or shared housing mainly source water from containers (39.6%) and drilled wells (30.6%), which are more expensive than piped sources and are not tested for water quality. 38.3% of rented housing and 50.5% of temporary housing use shared latrines versus 15.8% of households overall. Migrant households are far more likely to have indirect electrical connections (31.5%), as are those in rented housing (43.3%) or with rooms in large buildings (30.6%), or in temporary houses (20.2%) versus 18.8% of households overall.

[26] As reported by the World Bank presentation on the Ho Khau registration system in 2014. This figure is confirmed by the 2009 Urban Poverty Study that found the number of unregistered migrants to be 20% in Ho Chi Minh City, though noted that this is likely to be an under-estimation.

[27] World Bank calculations, based on average house unit size of 70m^2.

These aspects are explained in more detail in the following paragraphs:

a. ***Firstly, affordable rent levels are not sufficient to make quality rental housing units economically viable for investors.*** High-end formal rental options can cost over VND 20 to 50 million per month[28]. Meanwhile, rent for standard rooms in the market currently start around VND 0.6 to 0.8 million per month for the most basic room of 6-9 m^2 in a secondary city and rises up to VND 5 million per month in a stand-alone house with own toilet facilities (see Annex 1). Considering the varying payment capacity of households, rental units of VND 5 million per month are only affordable to the highest-income quintile, the bulk of whom will want to own with the exception of young working professionals and expatriates. Upper income rental often comes in the form of condos or detached three- to five-story houses. The market has few to no entirely rental residential projects. Units of around VND 2 million per month are only affordable to the top 3 quintiles, excluding the lowest 40 percent of households. A rental unit charging 1 million per month, such as a 6 - 9 m^2 room in HCMC, will still not be affordable to quintile 1 households. Hence, many Vietnamese either live in shared dormitories or units in a substandard condition.

Table 4.7 Affordability of Monthly Rent Levels

Income Quintile	Monthly Income (m, VND)	Affordable Payment Capacity	Affordable Rent Levels (m,VND)	Share of Income w/ Monthly Rent of 5m	Share of Income w/ Monthly Rent of 2m	Share of Income w/ Monthly Rent of 1m
Q5	23.8	40%	9.5	21%	8%	4%
Q4	12.8	30%	3.8	39%	16%	8%
Q3	9.3	25%	2.3	54%	21%	11%
Q2	6.6	20%	1.3	75%	30%	15%
Q1	3.6	15%	0.5	140%	56%	28%

Source: Authors' calculations.

b. ***Secondly, a number of legal hurdles prevent private sector participation and incentivize landlords to remain informal.*** Landlords are legally required to register as businesses and uphold strict construction standards for inns, based on the Ministry of Construction's regulations, such as Decision No. 75/2006 in HCMC. These requirements include that the area ready for use, excluding walls, should be at least 9 m^2 without toilet in the room and 12 m^2 with toilet in the room. Further, the width must not be less than 2.4 meters, and the height from floor to ceiling should be at least 2.8 meters, with separate partitions by brick between rooms. The average area should be 3 m^2 per person, excluding toilet and shared space. The room should be airy, with fans and beds for tenants, and have windows. For buildings with 10 rooms or more, tenants must have access to open green space that is equal to at least 1.5 m^2 per person. There is also a series of other hygiene and fire safety standards to uphold. In HCMC, it was reported by the Department of Construction that only 28.5 percent of inns out of the total owned by the households and individuals meet the quality requirements and have been granted with a certificate of business registration.

c. ***Finally, there is negative market perception of the sector.*** Investors and the public sector alike perceive affordable rental housing as a risky and unprofitable sector. This perception is driven by past experiences in public housing, where rent levels were set extremely low and large government developments were poorly maintained. This negative perception is furthered by the informality that characterizes the current rental sector, which features severely degraded stock, unregistered tenants

[28] Sourced from interviews with Ministry of Construction.

and publicized cases of tenant mistreatment. This has prevented the development of long-term financial instruments suitable for rental investment by commercial banks, as well as the interest in provision of affordable rental housing by commercial developers.

The Vietnamese government has a long history of activity in the rental sector. From the 1960s to 1980s the government maintained a housing fund to build public housing units that were then distributed to government employees under nominal rents. These units tended to be built in apartment complexes of three to five levels, with apartment size varying from 16 to 32 m^2. Yet, these provisions only reached a third of government employees and the remainder had to resolve their housing needs without support of the State[29]. In the late 1980s, during the market-oriented Doi Moi reforms, government halted this public housing production and initiated policies to encourage people to build their own houses. In 1994, the government issued Decree No. 61 that cancelled the state-subsidized system on housing and pushed housing to be based on a market delivery system. Much of the Soviet-era stock was privatized, though not always entirely successfully. In fact, much has since suffered from poor maintenance and has been left in limbo[30].

In the past two decades, there have been a series of recent efforts at public interventions in rental housing. Since 1998 city municipalities have been allowed to allocate land to state enterprises for building housing units for sale and rent. These include central, provincial, and sometimes district level construction companies. In 2005, the National Housing Law defined forms of housing development, including social housing. Current social housing policies mainly focus on using state budgets to develop housing for eight key GoV target groups, which include civil servants, revolutionaries, low income families, workers, and students. The law allows direct state budget to be used for housing for rental and lease, and allows for sale via a lease-to-own model effective after 5 years of occupancy. For a more detailed discussion of public housing programs, refer to Chapter 7.

Despite limited success of programs to support rental housing to date, the government has a renewed focused on improving this sector. The National Housing Development Strategy to 2020 and Vision to 2030, approved in 2011, set out explicit targets to increase the proportion of rental housing in the market. The targets include a plan to renovate and rebuild degraded apartment buildings and to promote rental housing in urban areas. The goal is to increase the rental share to 20-25 percent of the housing stock by 2020 and to satisfy the housing needs for 80 percent of students and 70 percent of an estimated 2.2 million industrial workers in the same period.

The 2015 Housing Law includes important revisions for the rental housing sector. Rental and lease-to-own options for urban residents have been explicitly stated as a focus of social housing programs, with legislation expanding support to citizen-initiated housing and rental accommodations. Incentives for affordable rental include land-use fee waivers, state contributions for infrastructure financing, and favorable tax treatment. Furthermore, rental units receiving state support should have rents set at a level that reflects capital pay-back over a period of 20 years, as well as operations and maintenance costs, which is to be overseen by PPCs.

To achieve its targets in the rental housing sector, the government of Vietnam will need to develop a clearer operational and legal framework and subsidy delivery system. Interventions should focus on improving substandard rental housing

[29] Presentation prepared by the Department of Housing Management and Real Estate Market, Government of Vietnam.

[30] There are over 3 million m2 of floor of old apartment complexes, which were built before 1991, with more than 100,000 household living in them. Hanoi has 23 old apartment complexes with 4 or 5 floors, total floor area is about 1 million m2 with over 30,000 households living in 10 low-rise apartment complexes. HCMC has 6 central apartment complexes and many small ones scattered in 12 districts of which over 0.4 million m2 of old apartment were badly damaged with 10,000 households currently living in them.

stock, the level of formality in the rental sector, as well as demand-side interventions to enhance affordability. Further efforts are needed to create a more flexible enabling framework (legal, financial, technical) to stimulate new rental supply, which supports the development of a set of competent public, state-owned, non-profit, and private social rental providers.

4.4 Self-Built Housing Sector

Self-built housing makes up approximately 75 percent of the total housing stock and production in Vietnam. Self-built housing is defined as a home that is built by the home-owners themselves, either fully or partially, or by a sub-contracted developer, builder or micro-builder. Self-built construction projects can thus be newly produced homes or incremental improvements or expansions for self-consumption, for rent or for sale, and the size and quality of the home can vary widely. While the majority of self-built housing are tube houses and alley houses, they can also be large villas for the high income or squatter houses for the low income. The market for self-built housing is most dynamic and fast growing on the urban fringes and peri-urban areas of larger cities, responding to urban population growth and the needs of the low income segment and migrant workers. Self-built housing also takes place in more central areas, however mainly in the form of home improvements and expansions. A significant share of self-built housing is informal as units lack the official BOLUC certificate, having been constructed or incrementally built without a complete set of permissions from authorities.

Self-built, particularly incremental self-built, has been the most affordable and accessible housing for the middle and low income segment. While varied from city to city, and within cities, the average construction cost of the most common housing typologies - tube houses and grade IV houses (defined as a single story house) is approximately VND 4 million/m^2 and VND 3 million/m^2 respectively, for the three cities surveyed in the World Bank's Qualitative Study - Hai Phong, HCMC and Can Tho (see Table 4.8). At this level of affordability, middle income home-owners and perhaps even the higher end of the Q2 income segment can upgrade and expand their homes incrementally in line with their accrued savings and/or borrowing. Another element of affordability is provided through the business opportunities linked with commercial use of the first floor, which is prevalent in self-built multi-story tube houses.

Table 4.8 Labor and Construction Costs of Tube Houses and Grade 4 Houses

	Grade 4 House		Tube/Multi-Story Adjacent House	
	Labor Costs/m2 (thousand, VND)	Construction Cost/m2 (million, VND)	Labor Costs/m2 (thousand, VND)	Construction Cost/m2 (million, VND)
Hai Phong	600-750	2-4	700-900	4-8
HCMC	600-900	2.5-3.5	950-1500	3.5-5
Can Tho	500-1000	2.5-4.1	700-1500	3.5-6

Source: Qualitative Study, World Bank, 2014. Compiled from in-depth interviews of construction contractors in September and October 2014.

In-situ incremental expansion has contributed significantly to home size expansion over the last two decades. As shown in Table 4.9, average home size has nearly doubled over the last 15 years while the average home size per capita has more than doubled. The self-built segment has been tremendously resourceful and innovative in incremental expansion by achieving additional space by any means possible. Besides regular horizontal and vertical expansions, horizontal overhangs into alleyways and streets can also be commonly spotted in the urban housing landscape in Vietnam. Where structures are not designed for such expansions, they may become problematic; however, where structures anticipate growth they provide opportunities for safely increasing the size of homes to meet the changing needs of households.

Table 4.9 Average Home Size in Urban Vietnam

Urban Vietnam	1999	2009	2014
Average home size	44	70.3	83.7
Per capita average m2	9.7	19.2	23

Source: GSO 1999 and 2009 Census and 2014 Inter-Censal Survey

Self-built housing as a process is generally quite manageable for consumers. The construction materials are locally sourced and widely accessible at different price points, while the builders and small contractors are generally skilled, resourceful and entrepreneurial in nature. Furthermore, households can easily control their construction budget as they build, expand or upgrade stage by stage, depending on their savings capacity and changing needs over time.

Informality of tenure is prevalent in the self-built sector. The key reasons for tenure informality are: (i) building on informal land (lacking the LURC certificate, in cases where households cannot afford the one-time fee, for example), (ii) building without obtaining construction permits, and (iii) not meeting local zoning ordinances and/or building codes. Many consumers avoid the bureaucratic hurdles that the official process imposes on the building permit applicant or do not follow the building plans during the construction process in order to maximize benefits from additional height, size or changes in the external appearance – even when they had already obtained a construction permit. The risk taken by home-owners is real and there have been cases where stricter local governments have enforced building violations with either a penalty fee or alterations being required. More often, it appears that the home-owners are willing to take the risk, with an expectation that a fee can be paid to waive the violation.

Culturally, self-built housing is largely preferred by Vietnamese citizens, while meeting the density and other needs of cities. Population density in Vietnam ranks third in South East Asia, just after Singapore and the Philippines. Hanoi and HCMC are two of the most populated cities in the country, being 7 to 13 times higher than the average density of the country. Self-built multi-story tube houses, with their small plot sizes and narrow frontages are appropriate solutions to match the need for urban density and growing gross FAR requirements. This configuration, of dense neighborhoods of tube houses and other units in a network of alleyways also support social inclusion and cohesion.

Self-built housing solutions tend to be better perceived than developer-built social housing. Box 2 details household preferences, which determine their housing choice. Housing price and accessibility are ranked significantly higher

Box 4.2 Characteristics of Housing Preferences

i. **Affordability** determines how much a person or household can consume. Self-built housing is most flexible to address the affordability question as a household can start with the most basic core unit and incrementally improve the quality and expand the size in line with their savings and earnings capacity as well as housing needs over time.

ii. **Accessibility** is a second key priority as this is critical to income generation opportunities, thus immediately affecting a household's social welfare and capacity to pay for housing. This location-based preference includes both the household's connectivity to **nearby jobs** as well as the opportunity to **conduct a business within the housing unit** successfully. Elements that are important to connectivity would be the distance to business or employment districts, access to public transit, and street frontages for business opportunities.

iii. **Security** is related to the degree of safety for the household away from issues such as burglary or other crimes.

iv. **Livability** indicates access to social amenities, such as education (e.g. schools, kindergartens), health facilities (e.g. clinics, hospitals) and sociocultural facilities (e.g. parks, entertainment).

Source: Qualitative Study, World Bank, 2014 than security and livability, as they are important determinants of income and expenditure and thus of the households' social welfare. Meanwhile, perceptions toward social housing can be negative. Specific concerns include lack of affordability, limited accessibility or connectivity to the work-place due to location, difficulties to comply with income and eligibility criteria, and limited income generation opportunities, such as home-based businesses with street access, in the case of high rise social projects.

Self-built housing can be in a poor condition, built of substandard materials or with low construction quality. This may be due to several reasons. Firstly, low income households that lack access to credit or have inadequate savings are likely to invest less in construction. Secondly, households that are uncertain of the tenure of their homes are not willing to invest for the long term. Finally, to meet their small budget, households tend to utilize lower quality materials and/or work with lower quality sub-contractors.

Access to affordable housing finance is a major challenge to households who self-build, due to the low number that have formal tenure. The majority of self-built informal homes are bought and sold in cash or in kind. Very little is known about these activities and the key actors in the sales and transfer of housing in the informal market. The purchase and sale of self-built informal tenure homes are generally done by word-of-mouth among relatives and friends, or otherwise, informal housing agents take a small fee for bringing buyers and sellers together. Buyers need to rely on savings or lending from families or friends. Credit from moneylenders is typically far too expensive, given excessive interest rates and the capital-intensive nature of housing. In addition, evidence from other countries also suggests that low income households, even if eligible for mortgages, may be afraid to take on the borrowing risk, as the foreclosure of their home would deprive them of an essential asset.

Access to affordable formal land is another key hurdle for the production of new self-built housing, particularly in high growth cities. Land prices vary widely depending on location and have been rising to unaffordable levels in well-connected areas. The lowest price of land in low income neighborhoods in HCMC, Can Tho, and Hai Phong is around VND 2.5 to 5 million/ m^2. As an example, land for a modest single-story core house, as shown in Table 4.10, can make up to 60 percent of the total unit cost. Households who would like to self-build, are required to save for a long time to secure land before they can start construction. Besides high land prices, other obstacles that prevent affordable land access include high fees for land conversion and transfer (e.g., LURC), large minimum lot size requirements in subdivisions (e.g. 50 m^2 or more), and a regulation that requires land to be serviced with infrastructure before subdivisions can be sold.

Table 4.10 Example for the Costs of a New Self-Built Homes

Plot of 50 m2	VND 2.5/ m^2	VND 125 mm
Construction cost/ single-story unit of 45 m^2	VND 2.5/m^2	VND 113 mm
Total of Unit		**VND 238mm**
Plot of 25 m2	VND 2.5/ m^2	VND 63 mm
Construction cost/ expandable core of 15 m^2	VND 2.5/m^2	VND 38 mm
Total of Unit		**VND 100 mm**

Source: Qualitative Survey, World Bank, 2014.

Over recent years, prices of self-built housing have risen to a very high level. For example, average prices of low-end tube houses of at least 30 m^2 in Hanoi and HCMC, which are located in peri-urban districts, have been found to be approximately VND 400 million per unit (as captured by the Qualitative Study in 2014) making such homes affordable only to the Q3 income segment and above, or the high-end of the Q2 income segment, with support from the 30T program.

Positive interventions have been taken by the government to address the particular needs of the self-built sector as follows:

- Regulations on minimum plot sizes in subdivisions have reduced to 36 m2 in HCMC and 25 m2 in Hai Phong, in recognition of the high cost of land and density of urban areas.
- Requirements for construction permits for

Table 4.11 Examples of Low-End Tube House Prices in Hanoi and HCMC

City/ District	Location	Built Area (m2)	Cost/m2 (VND, M)	Unit Price (VND, M)
Hanoi / Bac Tu Liem	North inner fringe hot area	33	14.9	490
Hanoi/ Ha Dong	West -south inner fringe hot area	40	9.5	380
HCM/ Thu Duc	East fringe with industry	38	9.7	368
HCM/ Quan 12	North far fringe rural	43	9.3	393

Source: Qualitative Study, World Bank, 2014.

simple projects have been made more flexible. As per Decree No. 64/2012/ND-CP, small houses are not required to have construction permits to simplify the building process. Specifically, units with a total floor area of less than 250 m2, less than three floors and not located in protected areas, can be designed and managed by investors, who are then responsible for the safety of the buildings and adjacent buildings.

- Addressing the lack of funding of low income segments by making provisions for financing of LURCs through debt, payable over a 5-year period.

The focus of government policies and programs has recently been on the development of the formal housing market and much less on the self-built housing sector. In particular, policies have favored large-scale, developer-driven projects that are executed with People's Committee approval and support. As a result, the self-built informal housing sector has grown without significant interference from the government and there is limited public information to track trends in the self-built housing sector or experience to manage this sector. Key sector challenges that need government support include:

a. **Lack of affordable land for the self-built sector.** It is estimated that approximately 11,500 hectares of urban land is needed for housing annually. Formal land supply is currently not able to keep up with demand overall. In addition, the 20 percent inclusionary zoning requirement under Decree 188 has not yet included the self-built segment. There is a need for a strategy to supply suitable affordable and formal land for self built housing and with it, the promotion of sustainable human settlements through efficient mixed-use and mixed-income developments.

b. **Delivery of basic infrastructure is a key challenge.** As can be expected, the lower Q1 and Q2 income-segments have a higher level of needs with 40% and 25% of households lacking access to basic water and sanitation services, respectively (refer to Table 4.4.5 below). Rapid urbanization and the proliferation of unplanned settlements has led to a significant number of communities that need to be retrofitted with basic services, which presents technical and cost challenges[31]. Experiences from Latin America suggest that ex-post infrastructure provision in unplanned settlements is about 2.5 to 8 times as costly as an anticipatory strategy, such as sites and services, to accommodate the low income population in an affordable way.

c. **There is a need for continued urban upgrading and home improvement support.** There is an opportunity to build on the success of existing initiatives, such as the VUUP and to expand such programs to other cities and low income areas in need. This will require identification and classification of areas, development of budget and cost-recovery mechanisms and the design of interventions, to be integrated across different administrative sections. Meanwhile

[31] Basic services may include physical infrastructure (water, sanitation, street paving, street lights, electricity, storm water drainage and waste collection services) as well as social infrastructure (e.g. health, education, and recreational facilities).

Table 4.12 Access to Basic Services for the Urban Population, by Quintile

HH Income Quintile	Mo. HH Income in '000 VND	No Safe Water (%)	No Safe Sanitation (%)
Q5	29,805	16.8	4.9
Q4	14,278	21.9	6.9
Q3	10,315	31.2	9.8
Q2	7,325	34.3	17.3
Q1	3,982	44.6	31.7
	13,134	**29.8**	**14.1**

Source: Urban Vietnam – VHLSS 2012.

community driven development programs, such as those supported by the Association Cities of Vietnam (e.g. the 142 KKT program in Vinh City) have achieved positive results, although small in scale. Much learning can be extracted for scaling and replication to other cities and communities.

d. **Lack of technical support for quality construction of self-built housing.** The self-built housing sector has largely benefitted from poor enforcement of construction quality and safety standards by local DoCs. Construction changes are unreported or not recognized, and violations may be waived for a fee in some cases. However, better strategies for improving construction quality and compliance are required. In order not to push households into informality, for example due to enforcement of unaffordable standards. This will include: (i) adjusting legislation, regulation and policies to more affordable and acceptable terms that respond to the people's real housing demand[32]; and (ii) supporting households still unable to afford the revised standard, for example with subsidies for provision of basic infrastructure and/or de facto tenure security.

The 2015 Housing Law highlights self-built housing as an important component of its national housing policy and intervention programs. Implementing these programs will require the GoV to incentivize and maximize the entrepreneurial capability of the self-built segment, while providing support to ensure access to adequate land, basic services, micro-finance, more flexible permitting and registration systems and technical assistance to achieve higher construction quality.

[32] For example, small minimum plot sizes, acknowledgment of incremental housing and infrastructure development and affordable fee structures are considered essential here. These measures may be complemented with vocational training for construction workers to improve capacity and an online registration/notification system for simple construction projects to reduce opportunities for informal fee collection.

Chapter

5 Housing Finance

5.1 Housing Finance Sector Assessment

5.1.1 Overall Sector Context

Vietnam's housing finance sector is emerging, though is still small in terms of overall lending. Mortgage lending only began in 1993 with the establishment of the Land Law that allows a real estate owner the right to mortgage, guarantee or collateralize utilizing land use rights. Mortgage lending accounted for approximately 3 percent of GDP in 2011, compared to 5 percent in India, 10 percent in Thailand and 31 percent in Malaysia.

Development of real estate lending has been unstable in recent years. As shown by Table 5.1, real estate credit volume grew at an extremely high pace until 2010, reaching 20 percent of total bank loans outstanding, then fell sharply following the market downturn and restrictive credit growth guidelines issued by SBV in 2011. Credit to developers was by far the dominant activity in the residential lending sector, while mortgage loans represented a small portion of bank portfolios.

Table 5.1 Real Estate Loan Outstanding in the Banking System (trillion, VND)

As of YE	2008	2009	2010	2011
Retail Home Loans	32.1	58.3	104.8	79.7
Developers Loans	127.5	223.4	208.9	153.5
Total Real Estate Loans	198.4	343.4	388.0	280.0
Total Loans and Credit to the Economy	993	1,468	1,932	2,256
Total Real Estate Loans /Credit to the Economy	20%	23.4%	20.1%	12.4%
Retail Home Loans/ Credit to the Economy	3.2%	4.0%	5.4%	3.5%
Developer Loans /Credit to the Economy	12.8%	15.2%	10.8%	6.8%

Source: State Bank of Vietnam / Financial Sector Assessment Program (FSAP)

There are a range of inter-related factors slowing the growth of the housing finance market. Lack of long term funding, inadequate prudential regulations, an ineffective foreclosure system and limited housing data for valuations can prevent growth of a healthy and sustainable mortgage market. There is also a significant gap in retail housing finance delivery channels, where the needs of the informal income and the urban Q1 and Q2 segments are not properly addressed.

5.1.2 Housing Finance Demand

A low degree of financial inclusion limits housing finance access for a majority of the population. Only approximately 20 percent[33] of Vietnam's population has bank accounts and only around half of those actively use the accounts for consumer transactions. The level of financial inclusion is small relative to peer countries in the East Asia Pacific region (e.g. Thailand has a banking penetration rate of 70 percent). Financial inclusion is particularly

[33] SBV Settlement Department - 2012

small in rural areas, at 17 percent, compared with 30 percent of the urban population who have financial access.

Limited consumer financial literacy is a challenge to accessing financial services. According to a survey conducted by Home Credit Vietnam in 2013, around 50 percent of consumers in Vietnam, specifically households and SMEs, do not have sufficient financial knowledge to make an appropriate decision when assuming a consumer loan. Given the large size and long tenure of a mortgage loan, consumers need to understand their repayment capacity, the appropriate level of debt, the loan tenure, and the potentials risks related to a floating interest rate. Furthermore, a complex mortgage application process is a significant deterrent for many prospective borrowers. Finally, due to a lack of understanding about consumer rights, potential borrowers can fear being taken advantage of by banks and thus be reluctant to borrow or resort to money-lenders.

Table 5.2 Standard Mortgage Product offered by Commercial Banks

Amortization	Constant Amortization method (CAM) is the prevailing practice Equated MonthlyInstallments (EMI) are offered by some banks
LTV	70% is most common; some banks offer 80%
Term	15 years is most common; some to 20 years
Product Types	a. Home improvement / extension b. Home purchase (developer-built future home or existing home) c. 30T package
Rate Type Current Prevailing rate: 10-11%	Most banks offer a 3, 6, 12-month teaser rate After teaser period: bank adjustable base rate + 3.5-4%; reset quarterly, based on each bank's internal cost of funds Some exceptions: Vietcombank offers 3- and 5-years fixed rate products Mekong Housing does not use teaser rate; floating rate reset every 6 or 12 months

Source: Interviews with financial institutions.

Increasing home prices in urban areas over the past decade have made home ownership unattainable for the middle income Q3 and Q4 segments. Housing affordability issues persist in spite of the impact of the housing bubble on recalibrating market prices. Units for first-time home-owners in the Q3 income segment at the price point of VND 300 to 400 million are still not widely available across different housing typologies and locations. For the bottom of the pyramid or the lowest two income quintiles, access to affordable homes in urban areas is extremely difficult.

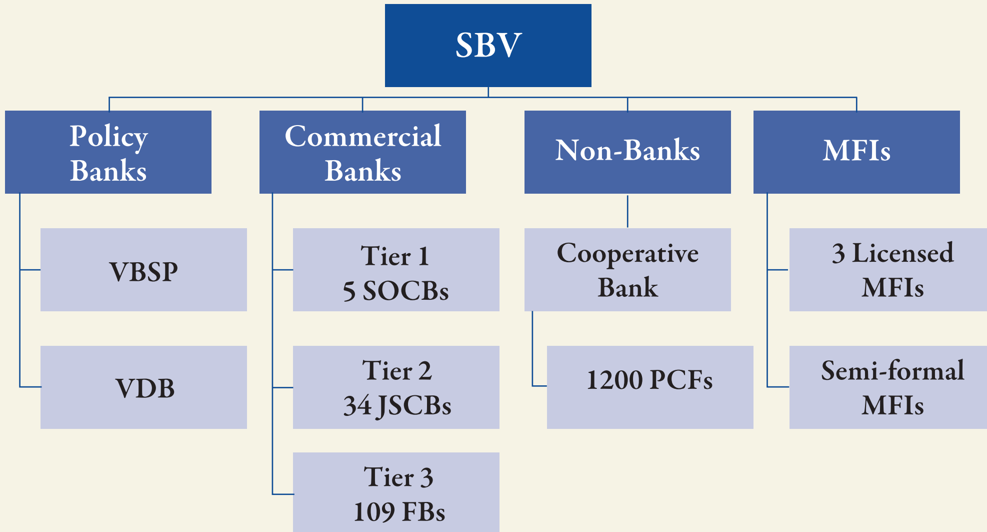
Mortgage products lack diversification and customization to meet the real needs of different market segments. In general, mortgage products in Vietnam provided by commercial banks are highly standardized, as detailed in Table 5.1.2. There are few customized products designed for specific target consumers at different stages of life cycles, income levels and savings capacity. In particular, the informal sector, estimated at 68 percent of the non-agricultural labor force, has been underserved or neglected by the banking system[34]. There is a general reluctance of the banking sector to lend to this segment, due to lack of experience in assessing real incomes, expected higher costs of underwriting and managing loans to informal income clients and the perception of higher risk of default.

5.1.3 Housing Finance Delivery Actors

Vietnam's banking industry has grown tremendously since Doi Moi in size, products, players and netwok coverage. In the past 25 years, the banking sector has grown from a single actor, the State Bank of Vietnam (SBV), to a sizeable network of banks and non-bank financial institutions with combined value of ~VND 5,650 trillion in assets, equal to 100 percent of GDP[35]. These include State-Owned Commercial Banks (SOCBs), Joint-Stock Commercial Banks (JSCBs), national policy banks, foreign banks, credit cooperatives and a range of microfinance-providing MFIs, associations and unions.

[34] International Labor Organization, 2014.
[35] USD 240B by Sept 2013, VPBS Vietnam Banking Industry, Jan 2014

Figure 5.1 The Structure of Vietnam's Banking Sector



Source: Author analysis based on interviews with key stakeholders.
Legend: VBSP = Vietnam Bank of Social Policy; SOCB = State-Owned Commercial Bank; JSCB = Joint Stock Commercial Bank; FB = Foreign Banks; PCF = People's Credit Funds; MFI = Microfinance Institutions.

Commercial banks primarily serve the top income quintile and are starting to lend to Q3 and Q4 segments with formal income. Q3 and Q4 consumers have become a strategic segment for all commercial banks over the last few years through expansion of the mortgage sector induced by the 30T package and changing risk perceptions. The largest three SOCBs – BIDV, Vietinbank and Vietcombank – account for a 40 percent share of the credit market, which is largely made up of formal salaried workers in urban areas. Foreign banks have also become active, though tend to be relatively conservative in their lending practices.

There are specialized actors that address the needs of the Q1 and Q2 income segments, particularly in rural areas. Prominent actors in rural areas include Agribank (Vietnam's largest commercial bank with 20 percent market share), People's Credit Funds (PCFs), MFIs and Women's Union networks, and the Vietnam Bank of Social Policy (VBSP). Formal documentation of income and employment are not the norm within rural areas, so financial providers across all income segments use the common method of underwriting using cash flow recalculation combined with collateralized lending[36]. Non-conventional financial providers, such as community savings groups and moneylenders, are expected to fill in the gap for consumers not wishing to engage with formal financial institutions.

People's Credit Funds are a major player in providing financial services to rural communes and some urban and peri-urban areas. The PCFs are cooperatives that incorporate principles of self-help and mutual support into their lending frameworks. PCFs have VND 2.5 trillion in combined loans outstanding. There are 1200 PCFs, which are active across 10 percent of all rural communes. PCFs draw funding from members' deposits (85 percent) and from the Cooperative Bank (15 percent) to serve their 1.7 million members, most of whom are low and middle income consumers. Housing finance accounts for approximately 12 percent of PCFs' lending activities, with the average loan amount at VND 500 million for home purchase, VND 50 million for home improvement, and loan terms of 3 to 5 years. The Cooperative Bank is the apex bank established to serve the PCF network. However, it also has 27 branches that carry out lending activities where PCFs do

[36] Collateralized lending is not used by the MFIs and the WU network at the bottom of the pyramid

not have presence. PCFs are regulated both as cooperatives and as financial institutions.

The MFI sector is small and focuses on poverty reduction, with 90 percent of total lending targeting Q1 borrowers, who are mostly women in the rural areas. There are 50 MFIs with an average loan portfolio of around VND 100 million, of which only three are formally licensed. Only the top two MFIs, CEP Fund and TYM, are of significant size. CEP and TYM have approximately VND 2.1 trillion in combined loans outstanding, with housing microfinance products amounting for VND 300 billion. Refer to Table 5.4 for details on the CEP and TYM housing products.

Table 5.3 Housing Finance Actors by Income Type and Urban/Rural

<table>
<tr><th rowspan="2">Income Quintile</th><th rowspan="2">Income Type</th><th colspan="3">Housing Finance Providers</th></tr>
<tr><th>Formal Urban</th><th>Formal Rural</th><th>Semi/In-formal</th></tr>
<tr><td rowspan="2">Q5</td><td>Formal</td><td rowspan="2">All Banks</td><td rowspan="4">Agribank</td><td rowspan="10">Relatives / Friends
Rotating Savings Groups
Community Savings Groups
Money Lenders/ Pawn Shops
Supplier Inputs
Unlicensed MFIs (for Q1)</td></tr>
<tr><td>Informal</td></tr>
<tr><td rowspan="2">Q4</td><td>Formal</td><td>All Banks</td></tr>
<tr><td>Informal</td><td>Some JSCBs</td></tr>
<tr><td rowspan="2">Q3</td><td>Formal</td><td>All Banks
PCFs (5%)</td><td rowspan="2">Agribank
PCFs (95%)</td></tr>
<tr><td>Informal</td><td>Some JSCBs
PCFs (5%)</td></tr>
<tr><td rowspan="2">Q2</td><td>Formal</td><td rowspan="2">PCFs (5%)</td><td rowspan="2">PCFs (95%)
WU Network</td></tr>
<tr><td>Informal</td></tr>
<tr><td rowspan="2">Q1</td><td>Poor & Moderately Poor</td><td rowspan="2">MFIs (10%)</td><td>MFIs (90%)
WU Network</td></tr>
<tr><td>Poor List</td><td>VBSP</td></tr>
</table>

Source: Interviews with financial institutions.

Table 5.4 Comparison of Housing Micro-Loan Products

	CEP	TYM
Max Loan Amount	VND 30 million	Cycle 1: VND 3-4 million Cycle 2: VND 3-6 million
Rate	0.6%/month on a flat basis	0.25% / Weekly flat payment
Term	Max 5 years	70-100 weeks
Compulsory Savings	Savings of 0.25%/week or 1%/month of Original Loan Amount Rate: 0.1% per month	Cycle 1: VND 10,000/week at rate of 3.6%/year Cycle 2: requires a savings of 10% of disbursed loan amount (e.g., 90% LTV) at same rate of 3.6%/year
Effective Interest Rate	~15% to 20% Assuming monthly repayment frequency and 18 to 60 months term	~28% to 29% Assuming loan of VND 4MM, weekly repayment frequency and 70 to 100 weeks term

Source: Interviews with financial institutions.

Vietnam's Women's Union (WU) also plays a critical role in the operations of the microfinance sector. Established in 1930 and consisting of 15 million members, WU works with VBSP and MFIs in consumer education, community savings, and loan servicing, collection and management. The WU, together with the Ward People's Committees, form a type of informal credit bureau. The borrowing history of community members are recorded by the two institutions and used to great effect in controlling lending risks and preventing overindebtedness. Some JSCBs, such as Dong A Bank, have started to use the WU network to reach the low income segment in the rural area for income generation loans.

As the non-profit policy lender, Vietnam Bank of Social Policy (VBSP) reaches the poor list to provide highly subsidized housing finance products. VBSP is fully sponsored by the government and enjoys tax-free status, funding from the state budget, and no requirements for insured deposits. For lending purposes, VBSP mobilizes large amounts of capital, which include funding from the government and IFIs and a compulsory 2 percent of deposits from other commercial banks. VBSP has 64 branches, 8000 officers and staff covering 98 percent of all communes in the country. It uses mass organization channels for all customer-facing activities, ranging from sourcing customers and lending appraisals to disbursement and collections. VBSP has two housing subsidy products. The first is housing loans for the rural poor without existing homes (via Decision 167). The second is lending and technical support for those in the flood-prone Central and Mekong Delta regions (via Decision 716). Both have a highly subsidized flat interest rate of 3 percent[37] that is well below prevailing MFI rates.

The needs of Q1 and Q2 or informal income consumers living in urban areas are not fully addressed by the banking sector. Some of the JSCBs, as Tier 2 commercial banks, have built products for informal income customers to differentiate their brand. The Tier 2 JSCBs tend to lend to informal income customers that are high income and low risk. Lending volume is still small, accounting for approximately 10 to 20 percent of their mortgage portfolio. Meanwhile, PCFs have 5 percent of their footprint in urban areas to serve the Q2 segment and the two largest MFIs, CEP and TYM, provide coverage to some of the Q1 segment in urban areas.

Opportunities exist to extend coverage to better serve the urban low income. Commercial banks can play an important role in scaling existing products to a broader set of customers or moving down-market to better serve the bankable Q2 and Q3 income households. Meanwhile, Tier 2 banks may be able to enter into the low income market by working further with associations and MFIs to channel housing micro-loans. Better product segmentation and tailoring will also be critical to meet the unique needs of each market segment, such as flexible appraisal and collection tools to account for borrowers with informal income. At the product level, lenders will need to start considering adapting loan size, term and payment options and learning from international examples[38].

5.1.4 Systematic Sector Challenges

Despite impressive growth of the housing finance sector in the past two decades there are. The main challenges include a legacy of poor asset quality, low capital adequacy, tepid credit growth, insufficient risk management tools, and a lack of long-term funding to address asset-liability mismatches. SBV is pushing for consolidation of the sector to reduce the total number of banks by 50 percent over the next 3 to 5 years and ultimately to 18 banks by 2020[39]. The speed of bank consolidation, coupled with systematic recapitalization of the banking sector, will determine how fast the banking industry will recover and move forward.

The lack of transparency in debt classification hides the severity of nonperforming loans (NPL) and highlights the shortcomings of reporting standards. Stricter loan classification and provisioning rules will be in force in 2015 with the issuance of Circular 2 by SBV, aimed at tightening risk management and enforcement of more consistent and uniform standards for the treatment of debt, collateral, and NPLs. SBV and State-Owned Commercial Banks (SOCBs) have acknowledged that SBV's Circular 2 may bring to

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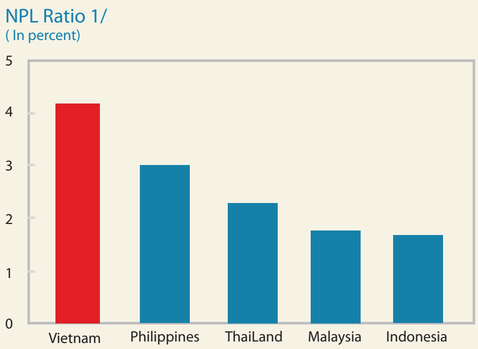
[37] VBSP discussion

[38] India's specialized Housing Finance Companies provide a good source of best practice through their understanding in addressing and underwriting informal income workers.

[39] World Bank, 2014

light an additional VND270 trillion[40] (~US$13 billion) of NPLs in the system, which have been primarily a result of defaults on developer financing once sales slowed and demand for high-priced speculative stock evaporated. The Vietnam Asset Management Company (VAMC) was established to off-load impaired assets from banks' balance sheets. Rules for handling NPLs and sales to VAMC have been issued – lastly through an SBV Directive in January 2015, with the view of achieving an NPL ratio of 3 percent by the end of 2015. Even after the restructuring of bad debt, NPLs in April 2014 stands at ~4.2% which is significantly higher than other South East Asian countries as show in Figure 5.2 below.

Figure 5.2 NPL Ratio in Vietnam, Compared to other Asian Countries



1/ Vietnam as of April 2014 Philippines as of September 2013 , Thailand, Malaysia and Indonesia as of end 2013

Source: IMF Vietnam Country Report No. 14/311, October 2014.

There has been an improvement in liquidity constraints in the banking system. This has been achieved mainly by deleveraging of financial actors, since SBV instructed banks to limit Loan-to-Deposit Ratio (LDR) and reduce credit growth. The global LDR of the banking system declined from 107 percent to about 88 percent between early 2010 and early 2014[41]. However, the situation varies between institutions. The 'Key Statistical Ratios' for banks, established by SBV, show a ratio of 95 percent for state-owned banks, compared with 76 percent for private sector banks.

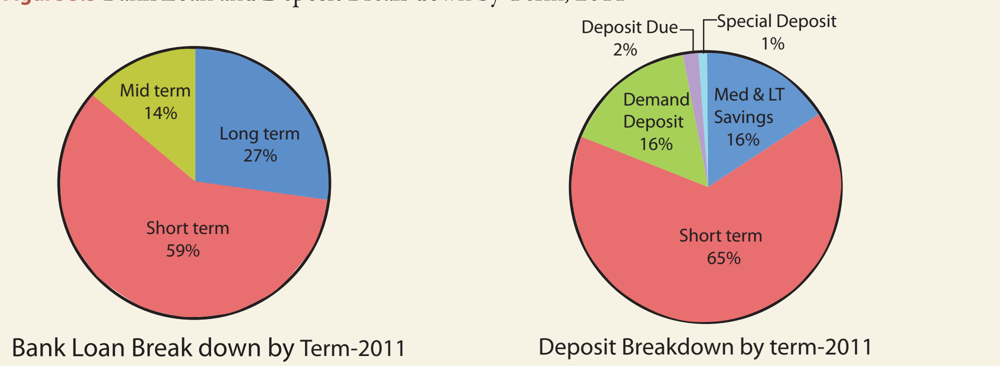
Sources of funding for financial institutions are limited. The banking sector in Vietnam relies primarily on consumer deposits for funding, complemented by corporate bonds, and business current accounts. Consumers generally prefer short-term deposit of 3-months, in spite of the fact that the deposit rate is currently being capped by the SBV at 5.5 percent. Based on data collected by StoxPlus in 2011, as per Figure 5.3, banks suffer an asset-liability mismatch where medium and long-term savings account for 16 percent of total banks funding, while medium and long-term loans account for 41 percent of liabilities. However, the SBV Circular 36 of November 2014 put a 90 percent and 80 percent limit on the Loan-to-Deposit ratio for SOCBs and Joint-Stock Commercial Banks (JSCBs), respectively. Unfortunately, this limit does not only encompass deposits, but also external funding sources. This prohibits *de facto* banks to use the capital market if they reach the ceiling, since this would not improve the ratio, even though issuing bonds is conventionally used to address excessive LDRs.

Practical and sustainable solutions to asset-liability mismatches will depend on banks' ability to raise long-term funding through the capital market. While the bond market has grown significantly over the last five years, it is still small - about 16 percent of GDP (half of the stock market)[42]. The constraint is due to the lack of liquidity and the small size of the institutional investor base: the insurance sector, the mutual fund industry, and the state pension system, Social Insurance[43], are all small in size. To stimulate the growth of the pension system, a reform has been prepared that would involve an increase in the number of contributors, but its effect will not be significant in the near future. Banks are in fact the largest group of bond investors today. The largest bond issuer, with around 90 percent share, is the government together with government-guaranteed entities. SOCBs, such as Vietcombank, BIDV and

[40] Macquarie Research, 2013.
[41] IMF Article IV Consultation, October 2014.
[42] Reported as of 2011.
[43] The Social Insurance, a pay-you-go system, covers only 20 percent of the workforce and allows early withdrawals of lump-sums meant to be paid to new retirees.

Vietinbank, have begun to issue corporate bonds, though the tenure is still limited to a maximum of three years and the volume is small. Authorities and stakeholders are working on steps and reforms to improve the capacity of the bond market (e.g. addressing primary market, market infrastructure, investor base, corporate bond framework). Yet, concrete results for capital market development will take time[44].

Figure 5.3 Bank Loan and Deposit Break-down by Term, 2011



Source: Macquarie Research, 2013.

More macro-prudential measures and standards are needed to ensure the safe development of the housing finance sector. Existing lending practices in Vietnam are risky compared to international standards, which have been strengthened in many countries following the sub-prime crisis. The following are some key areas that require some attention.

a. **Capacity-to-pay standards.** As shown in Table 5.5, Debt-to-Income (DTI) guidelines, to calculate payment capacity, vary significantly from bank to bank. Some banks employ more conservative guidelines in line with international standards, while others seem willing to take on more risk, allowing DTI limits up to 60-70 percent. International benchmarks for capacity-to-pay assessments, specifically Debt to Income[45] ratios, are in the range of 30-45 percent with higher rates only applied to low-risk customer profiles in higher income segments. For lower income borrowers, the residual income ratio methodology is usually preferred, as it takes into consideration a household's basic living expenditures and considers the capacity to repay a housing finance loan only on their income surplus[46]. Furthermore, some banks are more advanced than others, Vietcombank has developed a proprietary credit scoring system for underwriting, for example.

b. **Loan purpose standards.** Currently, banks do not differentiate mortgage products between home purchase or use for other purposes such as investment. Historical performance data across many international markets has shown that the default rate of home loans for investment tends to be higher than owner-occupied loans. In many markets, lenders price investment-related risk with a higher interest rate and limit the number of investment loans allowed by one borrower. Requiring banks to segregate loans by purpose and to track the performance separately over time can enable banks to analyze the different risks and put in place appropriate underwriting guidelines and

[44] With the technical assistance of the World Bank

[45] Debt to Income = Total Debt Obligations (mortgage installment + other existing debt obligations) / household income assessed

[46] Residual income Ratio = Mortgage Installment / Residual Income (household income after tax less household expenditures and other debt obligations).

Table 5.5 Examples of Capacity-to-Pay Guidelines by Select Lending Institutions

Financial Institutions	Capacity to Pay Guidelines	Risk Level
Vietcombank	Max DTI of 60% on fully documented income (including the 30T package)	**Less Conservative**
Dong A Bank	Max DTI of 70% - higher income segment Max DTI of 50% - likely for household income of VND 20MM	
Coop Bank *HCMC Branch*	Max DTI of 70% for Civil Servants (unsecured lending) Max DTI of 60-65% for Self Employed	
VP Bank	DTI of 30-45% depending on segments	**More Conservative**
Mekong Housing Bank	DTI of 30%	
Lienviet Postbank	No specific ratio, using residual income approach	
Peoples Credit Fund *District 2 HCM*	50% of Residual Income Ratio (HH income less all HH expenditures)	

Source: Interviews with financial institutions.

pricing. Loan purpose differentiation would also allow SBV the option to introduce tighter prudential guidelines during periods of economic stress, as deemed necessary.

c. **Risk management guidelines for interest rates.** The floating interest rate system in Vietnam can induce a shock to households' capacity to pay for their loan. Highly volatile interest rate movement was experienced as recently as 2009 and again in 2011, when rates moved up from ~7 percent to a high of 18 percent. Volatile periods have had a significant and negative impact to both borrowers and lenders. While the constant amortization method provides some protection against interest rate risk, it does not fully address the magnitude of the potential payment shock of a 11 percent rate rise over a two year period. There are product features as well as bank's internal rate setting and resetting processes that can be strengthened to help smooth out macro-economic fluctuations and mitigate interest rate risks for the banking sector. Some examples include introducing an interest rate buffer, term extension and smoothing out variation by using a 12-month average.

d. **Informal income assessment standards.** There are a number of instruments that are needed to encourage commercial banks to serve credit-worthy households active in the informal sector, while mitigating the risks. These include underwriting standards and complementary tools to help banks to estimate a household's income level. This could be supported by regular surveys in different regions, promotion of savings-for-housing products that enable lenders to check the savings capacity of prospective borrowers, as well as exploring the feasibility of a guarantee product specific to this type of borrowers. This strategy would also include stimulating certain banks[47] that are already familiar with the dynamics of the informal economy to be active in the housing microfinance sector. Pilot projects could be initiated to test the viability of the tools and practices developed for this purpose.

Box 5.1 List of Relevant Regulations Issued by SBV

Notable regulations related to credit institutions and housing finance include the following:

- **Decision No. 1627/2001/QD-NHNN** of December 31, 2001, on issuing regulations on lending by credit institutions to clients.

[47] For example, Dong A Bank or HD Bank.

Box 5.1 List of Relevant Regulations Issued by SBV

(continued)

- **Decision No. 493/2005/QD-NHNN** of April 22, 2005 promulgating the regulation on classification of debts, appropriation, setting up and use of reserves for handling credit risks in banking activities of credit institutions.
- **Circular 13/2010/TT-NHNN**, issued on May 20, 2010, stipulating the prudential regulations for credit institutions. This was the most comprehensive set of rules toward full compliance with Basel I. This framework covered requirements for capital adequacy, credit exposure limit, liquidity risk management and investment in subsidiaries/non-subsidiary companies.
- **Order No. 09/2010/L-CTN** of June 29, 2010, on the promulgation of the Law on Credit Institutions, which was passed on June 16, 2010. This Law defines rules and procedures for the establishment, organization, operation, special control, reorganization and dissolution of credit institutions.
- **Circular No. 19/2010/TT-NHNN**, issued on September 27, 2010, to amend the prudential ratios in activities of credit institutions. One limiting rule here is the ratio limit of credit exposure over funding sources. This limit is 80% for banks and 85% for non-banking credit institutions.
- **Joint Circular No. 20/2011/TTLT-BTP-BTNMT**, issued on November 18, 2011, guiding the registration of the mortgage of land use rights and land-attached assets.
- **Circular No. 22/2011/TT-NHNN**, dated August 30, 2011, supplementing some articles of the Circular No. 13/2010/TT-NHNN, stipulating prudential ratios in operations of credit institutions.
- **Circular No. 02/2013/TT-NHNN**, issued on January 21, 2013, on classification of assets, levels and method of setting up of risk provisions and use of provisions against credit risks in the banking activity of credit institutions, foreign banks' branches.
- **Inter-Ministerial Circular No. 01/2014/TTLT-NHNN-BXD-BTP-BTNMT**, issued 25 April 2014, guiding the procedure for mortgage of houses.
- **Circular No. 36/2014/TT-NHNN**, issued November 20, 2014 stipulating minimum safety limits and ratios for transactions performed by credit institutions and branches of foreign banks. This includes minimum capital safety ratio, credit limits, solvency ratios, maximum ratio of short-term capital sources used as the medium and long-term loans, limit on capital contribution and stock purchase and loan-to-deposit ratios.
- **Directive No. 02/CT-NHNN**, issued 27 January 2015, on furthering the handling of NPLs of credit institutions. This directive issued instructions on the handling, legal framework and sale of NPLs to the Vietnam Asset Management Company (VAMC) to reduce the ratio of NPLs to less than 3% by the end of 2015 as stated at the Resolution No. 01/ND-CP, dated 3 January 2015.

Vietnam has divided capital into Tier 1 and Tier 2, while risk assets are divided into six categories with risk weight factors being 0%, 20%, 50%, 100%, 150% and 250%, the highest of which has been given to real estate. The Capital Adequacy Ratio (CAR) of 9% is considered a robust development, given international standards. Total loans and extensions of credit outstanding is limited to 25% of equity capital of banks. Credit institutions must constantly maintain liquid reserve ratios of 10% for commercial banks. There are also rules governing the use of short-term capital sources as medium and long-term loans (maximum of 60% for commercial banks), as well as progress in the classification and treatment of NPLs.

Lack of an effective foreclosure process forces lenders and developers to bear a significant part of consumers' credit risk. Banks can legally foreclose on a default loan but often prefer to resolve defaults through direct negotiations with home-owners. Barriers to conventional foreclosure arise due to complex and lengthy judicial processes and costly foreclosure proceedings. Foreclosure is uncommon and currently carries negative social connotations for banks involved. For developer-built products, banks often rely on the developer's support in repossessing the property. In many cases, developers provide a guarantee to the banks so that developers would be responsible for property repossession and resale in the event of borrower default within the first few years of home purchase. It would be critical and advantageous to the banking sector for SBV to promote an orderly and effective foreclosure system. International experience has shown that foreclosure is an important foundational tool in helping banks manage lending risk and maintain loan portfolio quality.

Market data and information to support lending decisions is still not readily available. There is a critical need for financial institutions to have informative data on residential real estate market trends around housing stocks, current and planned production, sales and pricing movements for key markets but also on a nationwide basis. Data availability enables lenders to make informed decisions on real estate portfolio lending exposure. For example, lenders would be able to balance lending limits during real estate downturns and to identify potential risk in geographical areas as related to over-supply or unaffordable pricing. In addition, a real estate database accessible to the real estate sector's stakeholders would contribute toward a faster, cheaper, and more reliable collateral valuation process, to support better lending decisions.

5.2 Assessment of the 30 Trillion Stimulus Package

The 30 Trillion (30T) package is GoV's broad-based economic stimulus program, focused on stabilizing the housing sector, and the economy in general. It has largely achieved its goals, but primarily benefits formally-employed middle class households at high economic cost to the government, which is not fiscally sustainable. Amidst a severe economic downturn driven by the surge in credit peaking at 183 percent of GDP[48], bad debt of ~9 percent[49] in the banking sector, and a home price decline of between 30-40 percent[50] from peak to trough, the GoV launched the 30T package in June 2013 to address the over-supply of high-end inventories, waning consumer and business confidence, and stagnation in real estate production and consumption.

The 30T package aimed to shift developers and banks from production of speculation-prone high-end commercial housing and issuance of mortgages primarily for the high-income. By incentivizing and realigning market interest toward real demand from middle and low income consumers, GoV sought to diversify and reignite real estate production and lending to stimulate the whole economy. SBV and MoC co-developed the governance and regulatory framework of the 30T package. While SBV manages consumer eligibility criteria and loan disbursement and performance on the demand side, MoC is responsible for the same activities on the developer supply side.

Table 5.6 Key Characteristics of the 30T Package

Lending Goals	VND 9T for developer loans; VND 21T for mortgage loans
Interest Rate	Concessional rate of 50% of average lending rate (max ceiling at 6%)
Loan Term	Max 15 years
Program Duration	3 years (June 2013 - June 2016)

Source: SBV

The 30T package struggled with low uptake and market skepticism in its first year of its launch. The 30T package represents the first attempt by the GoV to address economic downturns linked to volatility in the real estate sector. Hence, the initial program structure was not well aligned with consumer needs and was met with public skepticism

[48] As of 2011 - IMF and WB FASB - 2014
[49] As of 2012 as confirmed by the SBV as per article- www.reuters.com/article/2012/10/24/markets-ratings-vietnam-idUSWNA826820121024
[50] CBRE (peak in 2008 and trough in 2013)

and low participation. In August 2014, the GoV built out user-friendly implementation guidelines based on feedback from the public and lending institutions. Eligibility criteria, administrative procedures, and transfer mechanisms were amended, all of which has led to noticeable increase in program uptake. Program highlights are detailed below:

a. Mortgage eligibility criteria (demand side):

- Maximum price of eligible properties is VND 1.05 billion for home purchase, construction, expansion or improvement for owner-occupied buyers and for rental / lease-to-purchase investors.
- Eligible borrowers include: public and government officials and employees; employees of socio-political organizations, public service delivery and military agencies; and low income individuals who either have no house or a home with average area of <8 m^2 per person, and either with permanent residence or with temporary residence, but with social insurance for at least one year in the area. There are no eligibility specifications for borrowers' income.
- Financial products have a maximum loan term of 15 years and require a minimum down payment of 20 percent.

b. Developer eligibility criteria (supply side):

- Eligible investments must be categorized as social housing.
- Eligible investments must have approval in writing by competent authorities with cleared land and construction permits; commercial projects being converted to social housing must have approval by authorities.
- Financial products require developer equity of at least 30 percent.

The 30T program disburses through SBV and provides participating lending institutions with capital refinancing with operating margins for banks incorporated. The refinancing and repayment mechanics between the SBV and participating banks are as follows:

a. SBV refinances both mortgage loans and developer loans disbursed by banks at a concessional refinancing rate. The concessional rate is calculated at 50 percent of prevailing banks' lending rate and capped at 4.5 percent (based on a ceiling rate of 6 percent less 1.5 percent margin to the banks). The 1.5 percent margin is intended to cover the bank's operating and credit costs.
b. On a monthly basis, banks collect installment payments (principal and interest) from borrowers and banks re-pay principal and interest at the refinance rate of the prior month to the SBV.
c. Banks enjoy a 3-year grace period on principal re-payment, with the first principal due at the beginning of the 4^{th} year.
d. SBV charges banks Overdue Interest Rate of 150 percent of the prevailing refinancing rate for unpaid repayments.

The actual cost of the 30T package at completion is difficult to determine, with heavy dependence on macro-economic factors, such as inflation and sovereign risk. These factors drive the yield on public debt throughout the 15-year repayment period for the mortgages supported in the program. The higher the nominal interest rates of 15-year local currency treasury bonds, the higher the cost of the program and its subsidies. At the current yield of 7.75 percent on a 15-year local-currency treasury bonds, the implicit subsidy cost for mortgage loans and developer loans are 23.8 percent and 7.1 percent of total capital, respectively. Consequently, the total cost of the subsidy in the current environment would be VND 5.6 trillion[51] or a weighted subsidy rate of 18.8 percent.

The cost of the subsidy would significantly increase should perceived sovereign risk or expected inflation increase without adjustment of the program's refinancing

[51] VND 5.6T = (VND 21T X 23.8%) + (VND 9T X 7.1%)

Table 5.7 Implicit Subsidy Rate in the 30T Program and Sensitivity Analysis

	Mortgage Finance				Developer Finance			
Real int /	Inflation				Inflation			
T Bonds	3%	5%	8%	15%	3%	5%	8%	15%
1%	3.3%	15.1%	29.1%	50.8%	1.6%	7.8%	16.2%	32.0%
2%	9.5%	20.2%	33.0%	53.0%	4.8%	10.8%	18.7%	33.9%
3%	15.1%	24.9%	36.6%	55.1%	7.8%	13.5%	21.2%	35.8%
4%	20.2%	29.1%	39.9%	57.0%	10.8%	16.2%	23.5%	37.6%

Source: Authors' calculations.

terms, as shown in the sensitivity analysis in Tables 5.7 and 5.8. If the yield on treasury bonds would increase to 16 percent or above, the implicit subsidy cost would reach 50 percent or higher for mortgage loans. This scenario is possible as the yield of treasury bonds previously did reach 15 percent, on September 20, 2008.

A hidden cost of the program is the counterparty risk assumed by the SBV vis-a-vis the 15 transactional banks. Such risk is not to be ignored in light of the weak structure of the banking sector, which has suffered from non-performing loans, weak capital adequacy ratios and weak liquidity by some of the smaller banks. Given the long mortgage tenure of 15 years, future economic and/ or real estate downturns can undermine banks' capacity to repay, particularly those with a high concentration of developer risk. There are also inherent risks to SBV serving as both a creditor of a bank and the lender of last resort.

The cost of the program may be lowered with a high loan pre-payment ratio. Such pre-payment would result in shorter loan terms that reduce total subsidy cost. Pre-payment may be triggered by factors such as consumers' adversity toward debt and a low pre-payment penalty. However, the current level of the interest rate, at well below market rates, makes this outcome unlikely today.

Table 5.8 National Program Status as of February 28, 2015

Type	Loans Committed	% of Target	No. of Loans Committed	Loans Disbursed	Avg Loan Amount
Mortgage	VND 6.4T	30%	14,064	VND 4.4T	VND 453M
DeveloperLoan	VND 4.4T	49%	34	VND 1.7T	VND 130 B

Source: MoC.

With nearly one third of its total funding committed at the end of 2014, the 30T package is expected to complete its funding target by the end of 2016. On the supply side, MoC has pre-approved a total of 100 projects by YE 2014 to fulfill its target by the program's termination date. Meanwhile, on the demand side, the SBV has appointed an additional 10 commercial banks to participate in the 30T package to ensure that the target will be achieved. By the end of February 2015, the 30T package had committed VND 10.8 trillion and disbursed VND 6.1 trillion. Table 5.8 specifies the disbursement and commitment of the 30T package throughout the course of its implementation, with latest data from the end of 2014. In the event that the 30T package will not reach its disbursement goals by the targeted completion date of June 2016, the MoC and MoF have the option of extending the program.

The 30T package has been successful at reorienting developers and lenders toward the affordable housing market, yet at a high economic cost to government, which is not fiscally sustainable. Although, the 30T package has had a broad impact on the economy, of most significance is the shift of the real estate sector's focus from high-end speculation-prone products to the Q3 and Q4 income segments with real housing needs. By the completion of all of its loans the 30T stimulus package would support a projected total of 45,000 households in mortgages for their home purchase, improvement or construction and finance the development of 65,000 affordable units[52]. Other important impacts include:

a. ***Improved consumer and business confidence.***

b. ***Strengthened mortgage lending.*** Mortgage lending volume has grown for participating banks (in one case, by 700-800 percent) and developers have relied on these mortgages in selling stock (in one case, 100 percent of volume in Q4 of 2014 was sold with 30T package mortgages).

c. ***Extended affordability and reduced default risk.*** The purchasing power of households is enhanced by around VND 100 to 200 million, while the fixed interest rate ceiling of 6 percent avoids risk of interest rate volatility[53].

d. ***Increased housing production at an affordable purchase point.*** Of the 34 projects committed by November 2014, several have units at ~40 m2 and purchase price of around VND 350 million, that are affordable to Q2 households, all the way through to units priced at VND 1.05 billion aimed at the Q4 income segment.

e. ***A reduction in unfinished and vacant projects*** by allowing conversion of commercial properties into affordable units. Out of 34 projects approved under the 30T package, 13 projects with a total of 15,000 units (or ~50% of total units approved) were converted, allowing projects to either increase off-take or draw new capital to enable completion.

Table 5.9 Status of the 30T Package Disbursement

Developer Projects	Hanoi	HCM City	Others	Total
# Projects	13	14	7	34
# Units	11,900	12,048	5,228	29,176
Smallest Unit Size	36	42	30	
Lowest Price/m2 (million, VND)	10	9	7	
Lowest Home Price (million, VND)	**360**	**378**	**210**	

Source: MoC, as of November 2014.

Despite these results, the 30 trillion package is not an economically efficient approach to expand access to mortgage finance and is recommended to be restructured. Economic analysis shows that the same level of affordability to households can be achieved at much lower cost and risk to government using alternative subsidy instruments. A buy-down subsidy or down-payment subsidy are less vulnerable to changes in the macro-economic environment (i.e. volatility in the treasury bond rate and inflation) and can be planned at a more predictable and transparent cost to government. The NPV for a down-payment subsidy, at current market conditions to achieve the same level of affordability, is 26.7% of the loan value. This compares with the NPV of an interest rate subsidy of 23.8%, but which can easily increase with slight changes in real interest rates to well above 30% of the total loan value. Meanwhile, a buy-down subsidy is the most efficient instrument to improve

[52] Assuming that the average loan amount (mortgages) and number of units (developer loans) achieved by 30T Program by November 31, 2014 would be similarly replicated throughout the remainder of the scheme.
[53] Interest rates increased by 8 percent over a two-year period between 2009 and 2011, Vietnam EIU, 2012.

affordability for the target groups (Q3, Q4), with a NPV of 9.2% of the loan value in current conditions. The impact is amplified if such a subsidy is linked to mortgages that use Equal Payment Installments, which gives an affordability enhancement of 25-30%. Hence, it is recommended that the 30 trillion program is restructured and shifted into a buy-down subsidy, which will provide more fiscally sustainable solution for government.

Chapter

6 Land Management and Urban Planning

6.1 Overall Context For Urban Land

Land management is widely recognized as one of the biggest challenges in the housing sector and beyond. Demand for land in expanding urban and peri-urban areas is high and planned supply has not been able to keep pace. Limited supply contributes to rising prices and reduced affordability, with particularly adverse impacts on the poor and poverty reduction efforts.

Public sector tools for land management and taxation have not been able to keep up with rapid growth in consumer demand, real estate development, urban expansion, and the resulting land transactions. Key blockages include:(i) tight urban growth boundaries; (ii) underdeveloped and vacant land due to land holding, speculation, and the public sector's lack of enforcement in cases of continued non-development of publicly assigned land; (iii) under-investment in public transportation, particularly mass public transit[54]; (iv) under-taxation of land, which rewards speculative land-holding and reduces the government revenues required to support inclusive urbanization.

Land use and urban planning efforts have focused largely on peripheral as well as homogenous developments in terms of use, density and income. Large-scale, unconnected and single function developments at the urban peripheries result in urban sprawl and inefficiencies in cities. These inefficiencies include long distances and travel times between places of residence and places of work or access to other urban amenities, increases in congestion, pollution and the risk of exacerbating social exclusion of the low income. Integrated planning and transparent decision-making should maintain an emphasis on mixed-use, mixed-income, and medium-high density developments, as well as connectivity to affordable public transport options, in order to support sustainable and inclusive urban growth.

Other major challenges to the availability of accessible, serviced and affordable land for affordable housing include:

- Desirable sites in or near urban centers are mostly off the market.
- Development of peri-urban sites is arduous, with challenges in site clearance negotiation and compensation.
- The regulatory framework is underdeveloped to support land sharing for cross-subsidy of housing production.
- Local governments might lack resources or political will to deliver trunk and site infrastructure in a timely manner for social housing projects.
- For households, quality of infrastructure surrounding the site can be low and hinder site infrastructure connections.

6.2 Management and Administration of Urban Land

6.2.1 Legislative Framework

[54] In cities such as HCMC, the development and completion of bridges, highways, and major transportation infrastructure lead to desirability of land around transportation nodes and ease of supply.

A solid legislative framework exists to guide and oversee the land sector, with efforts by policy makers to gradually adapt to market dynamics and needs. The Land Governance Assessment Framework (LGAF) study on Vietnam rated the country highly in the strength of land policies and regulations. The 2013 Land Law, updated from 2003, made adjustments to reflect market growth and needs, enhanced developer accountability in land and real estate development, clarified administrative procedures around land use, and restated the importance of citizen participation and protection in land transactions and development. The Land Law, in conjunction with the Civil Code No. 33 of 2005 which provides legal foundation for civil transactions, regulates the development of cadastral maps; land use planning and mechanisms; land use rights; land allocation, lease and reclamation; land management entities and administrative procedures; land users rights and responsibilities; and land disputes and complaints.

A major challenge for the land sector's legislative framework is the complexity and inconsistency of procedures, implementation, and enforcement. Provisions outlined in laws and accompanying legislation can be confusing, cumbersome and inconsistent. Secondary legislation is frequently either not in place or not implemented. There are several ministries with responsibilities for land management or development. For example, MoC is primarily responsible for physical planning, housing and real estate markets, urban development and land use planning, while MoNRE leads on land policies and land management and Ministry of Home Affairs (MoHA) is responsible for setting boundaries for urban areas and MoF is responsible for fiscal policies, including land and property-related taxes. Cases of inconsistent legislation and implementation persist[55]. The duplication of responsibilities has combined with a lack of coordination to create inefficiencies in land management that are widely recognized but have proved difficult to change.

State-driven land acquisitions and compensation levels remain contentious. Complaints on land prices for acquisition were reported as making up to 70 percent of all pubic complaints to government, based on 2005 data. This could adversely affect tenure security and investment in land and property. The Land Law and its guiding decrees have, step by step, provided fairly clear eligibility criteria concerning compensation, support and resettlement for land-users who hold no Land Use Rights Certificate (LURC)[56]. This equally applies to the current Land Law 2013 that provides specific regulations on what land use deeds can be used as an alternative to the LURC (e.g. Decree 43/2014). However, in practice, there are cases where compensation is not provided to land holders not in possession of a LURC. Also, when compensation is provided, it is calculated based on the Land Price Framework (LPF), which grossly undervalues the price of land, and compensation is delivered at once, without time consideration for land occupants to restore their livelihood, change jobs, and be compensated for lost income, as stipulated in the 2003 Land Law.

6.2.2 Land Administration

Land administration is complex, underdeveloped and lacking in transparency. Information on land, including detailed local-level land maps, is not easily available, reducing tenure security, even for formal land use right holders with LURCs and BOLUCs. MoC is looking to the Torrens system and Sweden for advice on land registration. MoNRE and MoC are collaborating in efforts

[55] A World Bank report (2011:162) 'Compulsory Land Acquisition and Conversion in Vietnam: The Conceptual Approach, Land Valuation and Grievance Redress Mechanisms Ha Noi' reports: "Vietnam's National Assembly decided to amend and supplement the Law on Complaints and Denunciations in 2004 and 2005. Despite these amendments and supplementations being undertaken twice within two years and a third time in adopting a new Land Law, there is still a lack of coherence between the two pieces of legislation. Indeed, there is significant difficulty in implementing the laws in reality."

[56] World Bank (ibid:162) states that "At the beginning of 2010, many local areas revealed that the number of administrative appeals on land prices for compensation, support, and resettlement comprises about 90% of the total of complaints arising from the public.

to use electronic land and property registration and eased administrative fees and procedures to encourage increased registration. The current lack of transparency in land administration, especially in the land registry, presents opportunities for abuse and misappropriation of public resources. The LGAF report of 2014 noted high levels of corruption and a lack of transparency (for example, the land registry is not up to date and land ownership records are not publicly available, reducing tenure security). The LGAF report stated that a lack of transparency in land records was one of the most problematic areas in Vietnam. Availability of public information on fee schedules was also low and fees adjusted on a non-regular basis, impeding good governance.

Consistent and firm enforcement of laws and requirements are needed, such as tightening lax penalty enforcements for stalled developments on publicly assigned land. There exists cases where developers had been allocated large areas of land (up to 100 hectares) for development, but have failed to develop it within the specified 24 month period and had even failed to develop it in some cases within ten years. Failure to cancel the allocations and recover undeveloped allocated lands without compensation has contributed to increased land prices and encouraged speculative behavior on the part of developers who can effectively acquire private land banks and only develop land when market conditions maximize private gain. This issue is being addressed in adjustments to the Housing, Real Estate and Enterprise laws. Article 64 of the 2013 Land Law induces additional LURC and land lease charges for developments stalling more than the maximum allowable 24 months; at the end of a 24 months extension, if delay persists, the GoV will claim the land and built structures upon it without compensation. Enforcement will be key to these new measures, and implementation of procedures in general will require more attention.

Aware of challenges in urban land administration and management, the GoV has taken a strategic step in moving urban land oversight responsibilities under the MoC. The transfer of urban land oversight from MoNRE to MoC will improve efficiency in the long run, as MoC plans and oversees urban construction and development. Consumers and market actors in urban settings will also benefit from less administrative steps, as procedures and approvals can be consolidated for land and development related processes.

6.2.3 Land Use and Urban Planning

Planning standards for residential development are generally appropriate. Official standards compare closely with the average plot size found in typical incremental developments occupied by the majority of urban residents. Recent regulatory changes have reduced minimum plot sizes to 36 m^2 in HCMC and even 25 m^2 in Hai Phong. However, many low income households opt for living on even smaller plot sizes, due to a high preference for detached ownership housing and the unaffordability of larger formal plots, leaving them outside of the formal system.

Regulations permit a high level of plot utilization and plot use efficiency. Floor Area Ratios (FAR) of up to 5 for residential land and possibly up to 1.5 more for commercial use permit high residential densities appropriate to locations where land prices are particularly high. In the case of social housing, an additional factor of 1.5 is possible for typical FAR for the area and the use. Regulations specify that in 'special cases' FAR can be adjusted by authorities, to a maximum of 7. However, it should be noted that the FAR gains do not really give a cost discount to peri-urban development, where land is comparatively cheaper.

Despite strengths in planning standards, actual land use plans and urban master plans have yet to be responsive to market needs and require more synchronization with socio-economic planning. Provincial-level cities and provinces have the responsibility to prepare urban master plans that account for projections of population growth, economic development, and transportation needs, among others, with consultation from private sector and community-based agencies and groups. In practice, urban development occurs on an ad hoc basis as direct response to short-term market dynamics and construction and development activities. Cases of cities growing too quickly and without long term planning are prevalent and can be incentivized by a cities' desire to attract higher funding from central government allocations and foreign investment if the city is elevated in urban status. Expansion of cities' administrative and urban boundaries is often ahead of demand and can bring adverse long-term socio-economic effects.

The 20 percent land contribution requirement has yet to achieve intended results. Implementation of the 20 percent inclusionary zoning requirement under Decree 188 continues to experience challenges due to limited local government capacity in enforcement, developer pushback, and underdeveloped management of collected land reserves[57]. The regulation currently does not consider the characteristics of land sites. Whilst allocation of 20 percent of the land for social housing works for some sites, a higher or lower percentage of allocation might work for other sites. There are economic benefits in exploring an alternative approach that has capacity to respond to the unique circumstances of different sites, while ensuring ease of implementation.

6.3 Economics and Taxation of Urban Land

6.3.1 Land Taxation

Land tax rates are very low. Taxes are levied on both an annual and a one-off basis. One-off taxes include VAT, corporate tax and a land use fee. Housing taxes are levied annually according to a formula defined by People's Committees[58]. All taxes are levied based on the Land Price Framework, with valuations significantly lower than market price, leading to limited tax revenues generation. In the area of citizen-owned land, low household incomes can make it difficult for people to pay appropriate tax rates. Informally occupied land is also taxed at the higher rate of 0.15 percent a year. Local governments are aware that tax revenues are inadequate and that in some rural areas the cost of collection accounts takes away a high proportion of the taxes collected. Plans to increase tax levels are yet to be identified, although actions are being taken to increase the Land Price Framework to be closer to market value.

There are no mechanisms for value capture from land conversions or developments. There are substantial changes in land prices resulting from state action in the conversion of land uses from agricultural to residential use, or from residential to commercial. As an example, in Binh Chanh district, land prices increased 50 times when land is converted from agricultural to residential use and ~16 times when residential land is converted to commercial use[59]. Prices for each land type were recorded in the 2014 Qualitative Study as follows:

- Agricultural land: VND 10 million/500m^2 = VND 20,000/m^2
- Informal subdivision (no LURC, no infra.): VND 30 million/30m^2 = VND 1 million/m^2
- Semi-formal subdivision (No LURC but infrastructure): VND 8 million/m^2
- Formal land (LURC + infrastructure): VND 500 million/30m^2 = VND 16.6 million/m^2

Existing tax instruments do not allow government to retrieve some of this value for public benefit. The issue of land value capture has been discussed within government, but no decision has been taken. Land use fees are determined by PPCs on a per-site basis without a structured, and therefore projectable, calculation method. Land use fees are payable once per project and can be prohibitively costly to the development financing structure of households and developers alike.

6.3.2 Economics of Urban Land Challenges

Demand for residential urban land is likely to increase significantly during the coming decades with continued urbanization. An estimated 27,994 hectares of land has been added to the nation's total urban residential land area between 2005 and 2010, an impressive increase of 27.2 percent in five years. In addition, urban land used for construction is forecast

57 Refer to Chapters 3.1, 10.1, and 10.5 for further discussion on Decree 188.
58 For example, the tax rate in Hanoi is 0.03 percent for a plot of 200m2 or less, 0.07 percent for plots between 201-600m2 and 0.15 percent for plots of more than 600m2.
59 World Bank. Qualitative Study on Self-Provided Housing. 2014.

to reach 335,000 hectares by the end of 2015 and 450,000 hectares by 2025[60]. This implies a substantial increase in the annual rate of urban land development, amounting to 11,500 hectares a year. Other estimates prepared by the project team[61] indicate that a significantly lower area of land is required suggesting that further research is needed to ascertain future urban land needs. Land need projections will need to also be closely linked to urban development planning in order to be effective. At present, formal channels are failing to keep pace with this rate of demand and the gap is being met largely by small-scale developers and builders. A significant proportion of land will need to be dedicated for small-scale land development and housing in the future.

The inability of formal supply to keep pace with demand is forcing up prices to levels that are increasingly unaffordable. As an example, land prices reach up to VND 600 to 800 million/m^2 in central Hanoi[62]. This adversely affects the real estate sector at large and the small-scale self-built housing sector that serves the needs of low income groups in particular. Pricing excludes even more households from the formal market, creating a spiral of exclusion and unapproved and informal development. Prevalence of sub-formal or informal tenure and ownership status continues to create an ungoverned transactions market that deepens constraints on land management and land supply.

A proactive, anticipatory strategy for expanding the supply of serviced, well-located land will be beneficial in the long-term[63]. The limited supply of land planned for urban residential development and consequent high prices has forced many households into overcrowded, underserviced, insecure, informally tenured and/or poorly located housing. It is estimated that approximately 4.8 million households suffer such a qualitative housing deficit, which is exacerbated not only by the high cost of land but also blockages around delivery and finance.

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60 Ministry of Natural Resources and Environment (2010) Report on Land Statistics, Hanoi: MONRE, quoted in UN-Habitat (2014:81) 'Vietnam Housing Sector Profile' Nairobi.

61 The project team estimated the total urban land need to be between 2,250 to 4,500 hectares annually for accommodating an additional 374,000 urban households every year. This estimate is based on an average household size of 3.6 and a gross population density of between 600 and 1,200 people per hectare The land includes the land for residential, local infrastructure and amenities as well as some commercial. It however does not include land for large-scale manufacturing, large-scale commercial or large-scale amenities (e.g. universities, hospitals, sewage plants, city parks).

62 Approximately USDPPP 60,000 to 80,000, using a stylized purchasing power parity conversion factor of 10,000, extrapolated on 2012 IMF data.

63 Chapter 10.5 provides tentative recommendations to tackle this challenge.

Chapter 7

Government Housing Interventions

7.1 Existing Government Initiatives

To address the housing needs of Vietnamese, the government has introduced almost a dozen public housing programs over the past decade. These programs span assistance to rural low income households, to urban upgrading or financing solutions for the middle income. A number of these government programs have achieved positive results and are moving into subsequent phases of implementation. The program for rural poor households, under Decision 167, has supported over 260,000 households with low-cost microfinance loans for home improvement during its first phase of implementation, with the second phase planning to deliver an additional 510,000 units over four years. The program to support flood-prone households in the Mekong Delta, under Decision 716, also provides lending through VBSP coupled with technical construction support. This program has delivered 40,536 units up to 2014. The next phase of this program is planning to run through to 2020 and to also expand into the Central Region. Other programs have managed to reach a large number of beneficiaries, including the student housing program and 30T package.

Although there have been success cases, government housing programs have largely been fragmented and results are difficult to track. Programs are usually developed independently to serve a specific priority segment, for example, meritorious people, students, industrial zone workers, officials, low income and poor households. Most programs have been stand-alone, with very little in common in terms of shared systems for identifying beneficiaries, delivery of subsidies, engagement with sector stakeholders or monitoring and oversight. As a result, coordination between different government bodies in program implementation has been limited and tracking progress is difficult. Consolidating and structuring common delivery systems for programs, as well as accounting for direct, indirect and implicit subsidies will help GoV to enhance program design and improve efficiency of spending.

GoV has a new strategic emphasis on supporting housing solutions for low income households in urban areas and addressing systemic issues. Historically, there was a gap in policy focus for urban low income households, despite the need of Q1 and Q2 income segments. VUUP and the 30T package were some of the first public programs that directly targeted the urban low income. Decree 188's requirement for the contribution of 20 percent of applicable project sites for social housing is a further government effort to resolve land blockages and stimulate supply in urban areas. Housing policy is reorienting toward these areas of high demand for social housing, particularly in urban and industrial areas, with a focus on development of market segments and income-based targeting, rather than social groups.

Programs with funding and technical support from external agencies complement and enhance government efforts. International agencies and NGOs have supported government efforts in key areas to develop sectors underserved by private sector and in need of public investments. Notably, in the areas of urban infrastructure and basic service provision, housing finance for low income households, as well as home improvement and community upgrading in urban areas, including Hanoi, HCMC, Mekong Delta, and the Central region.

The following table outlines the major government efforts in the housing sector and results.

Table 7.1 Overview of Government Housing Programs

Program	Description	Target
Housing support for meritorious people	A program for meritorious people. MoLISA determines eligibility and selection. MoC oversees and recommends allocation of budget, with approval by MoF. PPCs receive budget, purchase units from the market and allocate to beneficiaries. Beneficiaries get full title and are free to resell. There is no standard for quality and price of houses purchased.	340,341 units complete. 72,153 additional units planned.
Housing support for people living in flooding areas in Mekong delta	MoC oversees program. Five PPCs in the Mekong Delta region implement, through providing infrastructure for flood prevention and enabling access to VBSP's preferential credit to households for repairs, upgrade, and new construction. Land readjustments occur where required. Default rates are low.	56,520 units complete 40,536 additional units planned.
Housing support for people living in flooding areas in the Central Region (Decision 716)	Program is in planning and plans to replicate the success of the Mekong Delta program by adapting a similar implementation model for the Central region.	40,500 additional units planned.
Housing support for poor households in rural areas (Decision 167)	The program targets poor households in rural areas without existing homes. VBSP provides low-cost credit for home improvement and incremental construction, as well as basic technical assistance for construction. Women's Union, Farmer's Union, and Youth Union are among community organizations that provide customer interface and operations, from origination and appraisal to disbursement and collection.	260,587 unitscomplete 510,700 additional units planned.
Social housing for students	Funding comes primarily from issuance of government bonds, as well as from the Ministry of Education and Training (MoET) and local governments. PPCs authorize projects. Learning institutions directly receivebudget for construction via PPCs and MoC approves designs for dormitories.	Target of 95 projects to serve 330,000 students, of which 75 projects for 145,000 students complete.
Social housing for workers in industrial zones	Investors of industrial zones are required to plan areas for social services and housing for workers. Investors can directly build or transfer land to developers to build. PPCs provides infrastructure and can support land clearance and compensation. PPCs approve rent levels. Developers receive fees and tax incentives and preferential credit where available, like regular social housing provision. In some cases, VDB offers loans funded through bond issuance, approved by MoC, yet participation has been low.	Target of 6,039,898 m^2 for 960,264 workers, of which 64 projects (20,277 units) are complete and 59 projects (66,753 units) are being implemented.
Social housing for low income people in urban areas	Developers of social housing in urban areas receive incentives in land, tax, and preferential credit, via Decree 67/2009. The 30T Package in 2013, overseen by MoC and SBV, provides a source of preferential credit through	Target of 7,106,272 m^2 or 166,390 units, of which 129 projects have been approved, 38 completed

Table 7.1 Overview of Government Housing Programs (Continued)

Program	Description	Target
	commercial banks to developers as well as qualifying consumers for home purchase. See Chapter 5.2 for more details on the 30T package.	(19,686 units) and 91 in implementation (55,830 units), by December 2014.
Sale of State own houses to current tenants in accordance with Decree 61/CP/1994	State-owned public housing sold at below market rates to current tenants, as condominiums. Lack of management structures for public spaces as resulted in poor building maintenance and some units are stuck in legal limbo due to disputes over the rights to ownership.	362,500 units planned, of which 286,300 units or 86.3%are complete.
Official housing	National and provincial levels of government lease and manage housing to senior public and military officials.	A total stock of 315,280 m^2: 49 villas & 6,377 apts.
Housing finance project for urban low income and poor households	Three program components: (i) mortgage lending to urban low income; (ii) housing microfinance for the urban poor; (iii) establishment of a Mortgage Refinancing Facility (MRF). ADB supported GoV to provide lending capital to participating commercial financial institutions and community based financial institutions. MRFefforts reside with SBV, as do program oversight activities.	Target of 37,000 housing loans, with 15,307 housing loans originated by June 2013.
Mekong Delta housing purchase and upgrade finance project	With MoF oversight, AFD set up a 20 year credit line to Mekong Housing Bank to on-lend toward new housing purchase and housing improvements in flood prone regions. After 6 years, lending reached 6-7 loan cycles with 0% NPL, average loan size of VND 20M, and an average 1 year repayment per loan.	~60,000 loans originated to date.
Vietnam Urban Upgrading Program (Housing Microfinance)	As a component of the VUUP, a revolving fund was set up to MFIs and community networks for offer home improvement microloans to low income households in HCMC, Hai Phong, Can Tho, and Nam Dinh. Loans had max amount of VND 15 millionand maximum tenure of 5 years. The total line of credit was USD 15 million.	90,000 housing micro-loans complete.
HCMC Tan Hoa Lo Gom Resettlement Project	As part of an infrastructure and waterway project, 72 families were resettled from informal housing into apartment blocks. A collaboration between HCMC, Belgian Technical Cooperation, with WU and the Hunger Eradication & Poverty Reduction Fund facilitating a community savings program.	72 units complete.
ACCA Community and Housing Upgrade Project	ACCA set up the Cities Development Fund for lending, matched by community savings, for housing upgrade projects. Vinh City, as a pilot, used a community-led process and supported with simple administrative steps. Loans had 0% interest, 10 years terms. Implemented in conjunction with community infrastructure upgrading. Yielded 2 story houses on 45 m^2 plots subdivided through a community land readjustment process.	29 units complete.

7.2 Housing Policy Looking Forward

Looking forward, Vietnam's past experiences in housing sector interventions, comprehensive assessment of housing needs, the shortcomings of the existing housing delivery and housing finance systems, as well as the framework of the 2015 Housing Law, provide a strong foundation for the formulation of new policies and programs into the medium-term. Key messages from the affordable housing sector assessment for the development of the next generation of government interventions in the housing sector are the following:

a. **Increase Investment.** Consolidate and increase housing sector funding, in a sustainable way, to meet national housing objectives, focusing on the urban poor, particularly in high growth cities and industrial zones.

b. **Reorient Policy.** Use the 2015 Housing Law as an opportunity to develop a new suite of housing programs and capable delivery actors, focused on efficient use of public funds and solutions catered to the bottom 40 percent of the population.

c. **Strengthen Coordination.** Build out an over-arching coordinating body to convene across public agencies, control programs, channel funding, and support local governments toward becoming effective executing agents.

d. **Invest in Building Blocks.** Invest in the components of effective housing sector governance, including enforcement of regulations, management information systems for improved sector monitoring and measures for accounting and reporting performance of public spending.

II

Recommendations for A Roadmap for Affordable Housing Policy

Chapter 8 Objectives of the Roadmap

8.1 Introduction to the Roadmap for Affordable Housing Policy

The goals of Vietnam's housing policy are grounded in the first Housing Law of 1991, which stipulated that it is justifiable and legal for every Vietnamese citizen to have access to an adequate house. This statement was further affirmed in the National Housing Development Strategy of 2011, which stated: 'It is a basic right of human beings to have a proper and safe shelter. This legitimate need of housing is an essential condition for improving the quality of human resources as part of the industrialization and the modernization of Vietnam.'

Yet, rapid urbanization and very low incomes for the bottom 40 percent of households have overwhelmed the government's ability to ensure access to safe and affordable housing. Approximately 4.8 million or 20 percent of Vietnam's households live in poor conditions. These challenges will continue into the foreseeable future, with new demand (375,000 units per year) concentrated in large cities and industrial zones, where economic opportunities exist.

Housing is critical to Vietnam's long-term social and economic development. Affordable housing in high growth cities and industrial zones, which are well-connected to theselivelihood or employment opportunities and other essential services, will be necessary to enableongoing urbanization, increased productivity and inclusive growth in Vietnam. By actively supporting access to adequate housing for the lowest income, the government creates the positive conditions for improved public health, educational outcomes, and opportunities for poverty reduction and economic development. Furthermore, resolving issues around regulation, planning, and management of affordable housing delivery and housing finance, will be instrumental for attracting greater private sector participation, putting in place sustainable policies and achieving morelong-term stability in the housing sector.

8.2 Roadmap Goals

The Roadmap outlines a strategy to inform and shape the government of Vietnam's interventions in the housing sector in the next five years. These recommendations have been developed with consideration for the most feasible policy and program options from a technical, political, and fiscal standpoint, as well as the findings in the comprehensive sector assessment and priorities outlined in the 2015 Housing Law.

The Roadmap intends to serve the following purpose:

a. ***Present a set of concrete policy and program options*** that can be readily selected and adapted by policy-makers to achieve housing sector objectives. Specifically, targets of reducing the qualitative housing deficit andincreasing annual supply of formal low-cost housing, including self-built and rental housing, for priority target groups.
b. ***Propose a strategy for consolidating and strengthening institutions and delivery systems*** for government to build out a capable set of housing sector actors and robust coordination and implementation frameworks for improved performance of housing policy and programs.
c. ***Identify areas of investment and reform to reorient housing policy to the bottom 40 percent and high growth areas,*** as a tool to support broader national development objectives, including poverty reduction, a shift to higher-

productivity employment and inclusive and sustainable urban development.

8.3 Roadmap Recommendations

The Roadmap for Affordable Housing in Vietnam provides a comprehensive set of recommendations organized around six key areas of action. These areas of action are:

Action 1: Improve access to housing finance, by supporting development of specialized financial products and improving the financial sector's capacity for lending through improved prudent lending standards, risk management measures and long-term funding options.

Action 2: Help secure urban land for housing through improved land management and planning, mobilization of under-utilized land assets, and making adjustments in the land taxation framework.

Action 3:Invest in affordable rental housing, targeting industrial workers and Q1 and Q2 households through introduction of new subsidies on the supply- and demand-sides and making regulatory adjustments.

Action 4: Support self-built housing with delivery of starter core units in well-serviced subdivisions, as well as urban upgrading and facilitating incremental improvement and expansion of existing substandard stock.

Action 5: Stimulate developer-built affordable housing by introducing tools and partnerships to leverage private sector financial and technical resources and increase participation in affordable housing delivery.

Action 6: Consolidate and strengthen housing sector governance, through building out a set of capable delivery actors, including an overarching coordinating body for the housing sector, and effective local executing agents, as well as investing in governance building blocks, including management information systems, targeting frameworks and M&E standards.

As a vehicle to implement these actions and realize the objectives of the 2015 Housing Law, the government is recommended to structure a National Affordable Housing Program. This Program would serve as an umbrella to prepare and execute the highest priority interventions in affordable housing across the six areas of action, as well as put in place a common framework and the delivery systems to channel investment and roll out a package of supporting sector reforms over time.

Specifically, it is recommended that the National Affordable Housing Program initially focus on three Flagship Initiatives and two Structural Reforms. The three Flagship Initiatives should include housing finance assistance, expanding supply of affordable rental and starter homes for self-built housing, while the two Structural Reforms would concentrate on adjusting the urban land taxation framework and institutional reform to consolidate and strengthen an overarching housing authority and capable local governments, in order to effectively implement the Program. The proposed structure of the National Affordable Housing Program is shown in Figure 8.1 and summarized in more detail in the Executive Summary.

Figure 8.1 Structure for a National Affordable Housing Program

Chapter

9 A Framework for Housing Policy Reform for Vietnam

Policy Areas	Description of Policy Initiatives	Strategic Priority (Short Term; Medium Term):	Targeting by Income Quintiles: 1	2	3	4	5
1. Housing Finance	**10.1.A** Develop specialized housing finance products for underserved segments (buy-down; savings and subsidy-linked)	Short Term	■	■	■		
	10.1.B Strengthen the lending capacity of the housing finance sector (long-term funding; prudent lending; risk management)	Short Term	■	■	■	■	■
	10.1.C Adopt market-making measures (coordination; monitoring & evaluation; consumer literacy and protection)	Medium Term	■	■	■	■	■
2. Access to Land	**10.2.A** Reform the land taxation system (introduction of new land tax and removal of one-off LURC fee)	Short Term	■	■	■	■	■
	10.2.B Adopt integrated land development strategies (integrated planning; land pooling & land readjustment; land sharing)	Short Term	■	■	■	■	■
	10.2.C Adopt market-making measures (regulatory review; coordination; One-Stop-Shops; RFPs; small scale development)	Medium Term	■	■	■	■	■
3. Rental Housing	**10.3.A** Invest in supply-side support for affordable rental housing (capital subsidies; rental housing provider accreditation)	Short Term	■	■	■		
	10.3.B Introduce demand-side rental housing assistance (rental vouchers; landlords qualification)	Short Term	■	■			
	10.3.C Adopt market-making measures (regulatory strengthening; long-term finance for rental housing; market information)	Medium Term	■	■	■	■	
4. Self-Built Housing	**10.4.A** Implement a starter home program (incremental improvement and expansion; household savings link to subsidies)	Short Term	■	■			
	10.4.B Support improvement of self-built units and carry out neighborhood upgrading and development	Medium Term	■	■			
	10.4.C Adopt market-making measures (land for self-built units; community participation; shared tenure; flexible standards)	Medium Term	■	■	■		
5. Developer-Built Housing	**10.5.A** Structure PPPs for affordable housing delivery, focusing on opportunities in industrial zones	Short Term	■	■	■		
	10.5.B Explore development right incentive (strengthening of mechanisms for payment in lieu of land for social housing)	Medium Term	■	■	■		
	10.5.C Adopt market-making measures (guide HOA practices, redevelopment of old housing)	Medium Term	■	■	■		
6. Housing Sector Governance	**10.6.A** Strengthen institutional framework (over-arching housing authority; build local government capacity)	Short Term	■	■	■	■	■
	10.6.B Develop building blocks for housing sector (housing information system; targeting framework, M&E standards)	Short Term	■	■	■	■	■
	10.6.C Adopt market-making measures (regulatory audit; streamline procedures; knowledge sharing)	Medium Term	■	■	■	■	■

Chapter 10

Recommendations for Housing Policy Reform

10.1. Housing Finance

There are two main areas of focus for the housing finance sector. Firstly, improve access to housing finance by developing specialized housing finance products to meet the needs of underserved market segments. Secondly, ensure safe and stable growth of the mortgage sector by strengthening lending standards, risk management tools and expanding access to long-term funding.

10.1. A Develop Specialized Housing Finance Products to Reach Underserved Segments

Brief. Restructure the 30T subsidy scheme to improve the efficiency of public spending, while diversifying public interventions by supporting development of specialized housing finance products to meet the needs of other underserved segments. Focus support to urban areas, where there is a high number of informal income and informal tenure households.

Target Group. Consumer segments with limited housing finance access such as urban low income households, informal income and informal tenure households.

Strategic Context. Access to long-term and low-interest housing finance is a major barrier for increasing affordability. There are large underserved segments that are unable to access housing finance. For example, 68 percent of the labor force have informal income and therefore typically do not qualify for mortgages. Neither do home-owners with informal tenure and the poor, who have minimum savings and payment capacity. Innovations in housing finance products and lending channels are required to respond to these market needs.

Detailed Description. There are two priorities in expanding access to housing finance: (a) restructure the existing 30T subsidy scheme, and (b) customize financial products to better meet the needs of the underserved market segments and to match different housing supply channels.

a. Restructure the 30T Scheme by Shifting to a Mortgage-linked Buy-down Subsidy

Introduce a mortgage-linked buy-down subsidy which would achieve the same levels of affordability as the existing 30T scheme, but at 50 percent of the current economic cost to government. Target customers are salaried workers in the Q3 and Q4 income segments that meet the 30T eligibility criteria.

Mortgages are priced at market-rate by banks and government provides a "buy-down" subsidy to enhance a borrower's capacity-to-pay in the initial years, instead of subsidizing the interest rate. The buy-down subsidy would be slowly reduced in line with the borrower's income growth. In addition, affordability can be increased up to 25 percent by using the Equated Monthly Installment (EMI) amortization method instead of constant amortization. To take into consideration pricing differences by region, government could set differential pricing eligibility criteria on a geographical basis to balance out the costs and benefits of the housing subsidies.

The benefits of the buy-down subsidy scheme, in particular when amortized on an EMI basis, are as follows:

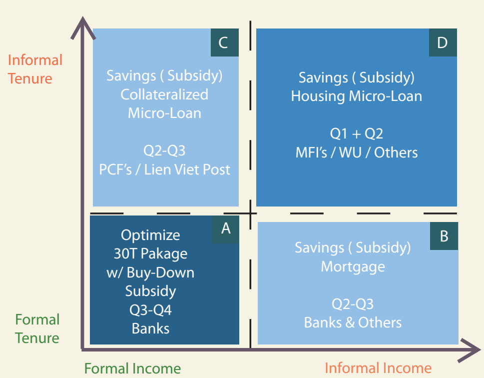
- From the borrower perspective, the scheme can be calculated so that the initial payment installments would be approximately the same as in the 30T scheme. Furthermore, the debt-to-income (DTI) ratio can be set at a constant level. This will help to alleviate potential payment stress during the initial years of the loan when the probability of default has traditionally been higher.

- Lenders would be free to set their interest rates to reflect their own assessment of the consumers' risk profiles and to meet their internal profitability objectives. In this way, the government support can be better integrated into their current product portfolio, as opposed to a separate obligation.
- The government would be able to reach approximately twice as many consumers with the same amount of public expenditure, in economic terms, using the buy-down subsidy approach.

b. Develop Savings and/or Subsidy-Linked Credit Products

Expand the availability of housing finance by developing specialized products with savings and/or subsidy features, as appropriate, to meet the needs of underserved segments. While a suite of products are described below, by priority of needs, it is recommended that government performs in-depth consumer assessments, tests and pilots of the products with the relevant target segments to determine suitability before launch. It is also recommended to ensure that each financial product aligns with a specific supply-side housing product, for example, home improvement and extensions or availability of appropriately priced core units.

Figure 10.1 Categorization of Household Type and Matching Housing Finance Products



Product B: An Uncollateralized Housing Micro-Loan

The target for the housing micro-loan product are Q1 and Q2 income households. In this program, participating MFIs and possibly PCFs will qualify eligible households for a housing micro-loan (e.g. loans up to VND 30 million, for approximately 3-5 years) that would be linked to a subsidy enhancement provided by the government. Payment capacity may be established through a minimum period of savings (e.g. 12 months), or a pre-existing savings and lending history. Given that the loans are uncollateralized and that both household income and property tenure are informal, loan amounts would be smaller and interest rates relatively higher than other housing finance products. Such micro-loans could be used for home improvements or incremental expansion for own-use or for rental purposes, where small landlords will be encouraged to construct an additional room for rental. Larger construction projects may require successive loan cycles, possibly increasing in size as the household has proven more credit-worthy.

Construction technical assistance should also be incorporated into the loan to ensure quality of construction. This assistance could include construction techniques, advisory from professionals and/or access to lower-cost construction materials. Habitat for Humanity has developed an effective model described in Box 10.1 in partnership with cement suppliers (Lafarge and Holcim), which is being implemented in several countries, including Nigeria and the Philippines. Pilots have also been completed successfully where the purchase of construction materials by self-help builders is pooled to achieve cheaper prices and technical advice is provided to them.

Product C: Mortgages for the Informal Income Segment

The target segment for this product would be Q2 to Q4 households with informal income who wish to purchase, self-construct, upgrade or expand a home with formal land title (i.e. LURC certificate). The expected loan amount would be in the range of VND 200 to 800 million, with loansof tenure up to 15 years. This product would also finance formal, expandable starter core houses for ownership, for lease or for rent-to-own (see recommendation 10.4.A).

There are two main components which guide the expansion of mortgage lending into the informal income sector: (i) the capacity to assess income, in spite of the absence of documentation; and (ii) knowledge of future borrowers' behaviors. Following are the key aspects involved in informal income lending:

- *Assessment of income and expenditures:* Loan officers need to acquire a good understanding of the borrower's business model and be able to 're-generate' statements of accounts, margins and cash flows for the business. In addition, the loan officers need to be able to calculate residual income having considered the household incomes and expenditures.
- *Industry knowledge:* Regular survey of industries related to where lenders are focused provide underwriters with a base of industry data such as expected margins, seasonality, cash flow, etc.
- *Know Your Customer (KYC) principle:* Existing banking relationships, such as current and savings accounts or a lending history are critical to provide trends on borrowers' capacity to pay. Without such information, consumers need to enter into a savings contract, as discussed below, to establish an income proxy.
- *Flexibility in repayment schedules:* Lenders need to take into account the irregularity of informal customers' income streams by introducing some flexibility in repayment schedules, or customize payment frequency to align with the borrower's business cycle.
- *Avoid risk layering:* Lower the maximum LTV, as well as the maximum capacity-to-pay, offer loans to owner-occupied only or introduce a fixed-rate for the first 3-5 years of loan tenure in order to mitigate the risks of lending to households with informal or potentially volatile income.

In India, for example, Housing Finance Companies have brought the underwriting of informal income borrowers to a high level of expertise and best practices which can be drawn from in the development of this product in Vietnam.

Product D: Collateralized Micro-Loans for the Informal Tenure Segment

The target market of this product would be borrowers with formal income, likely in the Q2 and Q3 segments, who would like to purchase or upgrade a home that has informal tenure. This product requires an investment amount that exceeds MFIs' scope of intervention, but which lacks the regular tenure of LURCs and so deters the engagement of mortgage lenders. The expected loan amount range would be VND 75 to 300 million, with a maximum loan tenure of 10 years.

Alternative sources of collateral can fill the gap of the security of a LURC and related obstacles to foreclosure of the financed property. These alternative sources of collateral can include pledged savings, cars or personal valuables, deposit of documents proving possession rights, pre-agreed registration of title and mortgage creation, in case of default. Development of these alternative collaterals would require: (i) identification of financial actors interested in product development for this segment; (ii) capacity building of these institutions; and (iii) availability of subsidies to improve affordability for households based on the general principle of prior savings mobilization. Finally, underwriting with strict delinquency guidelines that contribute to a credit history recorded in the Credit Information Center's (CIC) reports would be an important credit policy standard for this product to ensure good performance.

Savings features are recommended for the three specialized products (B, C and D), where deemed necessary. Contractual savings-for-housing schemes are contracts by which a customer commits to accumulate savings for a minimum of 12 months, to gain access to a housing loan at the end of the savings phase. The creation of such a mechanism is being explored in Vietnam and the savings feature brings clearbenefits to the housing finance system for all relevant stakeholders. Specifically, (i) savings help first-time borrowers to accumulate a down-payment; (ii) savings allows informal sector borrowers to build a credit record through regular savings payments, which also provides an indication of their payment capacity, and hence the level of their incomes; (iii) for lenders, such a requirement helps them to increase term deposits that are an economical source of funds, enabling lower lending rates, and are less liquid and more stable than ordinary savings accounts.

The main international savings-linked housing loan models are in Germany, France, North Africa, and Chile. The German and French models use closed systems, in which the amount of loans must balance the savings deposited, at the lender's level and at the banking sector level, respectively. The North African lenders offer interest rate discounts to customers who have accumulated savings, while savings is an eligibility criterion for housing subsidies in the Chilean model.

Subsidization is not always necessary, though can be importantin certain target segments. In particular, those households that face the most severe affordability challenges. Thus, a comprehensive assessment of the needs of the different targets would be necessary to design the right type and level of intervention for each of the different products described above. A progressive subsidy structure is also recommended, where the subsidy is differentiated according to income levels, with more assistance to lower income earners and progressively lower subsidy amounts for higher incomes.

Table 10.1 Risks Related to the Development of Specialized Housing Finance Products

Risks	Mitigants
High perceived risk profile for the products and consumers	To control for high risk, develop proper credit guidelines, underwriting standards and portfolio credit limits. Pilot products before launch and establish close monitoring processes to enable early adjustment of the program. Also consider other risk mitigation measures, such as incremental loan cycles to finance larger construction projects.
Weak lender capacity	Choose financial partners that have good coverage, underwriting capacity and commitment. Develop a comprehensive toolkit for program training that comprises: credit policy standards, underwriting tools and monitoring metrics. Provide training to lenders, monitor performance and re-train as necessary.
Mistargeting and/or mismanagement of subsidies	Set up close feedback loops via reporting of lender portfolios that include consumer characteristics to ensure accurate targeting. Establish third-party audits, as necessary. Disburse loans in line with completion of stages, as confirmed by lenders. Design a subsidy regime that is consistent across products and income segments, in order to reduce market distortions between products and minimize incentives to skim off subsidies.
Lack of government budget	Several tactics can be used to maximize reach of the government's modest budget: (a) minimize subsidies, for example, through temporary (e.g. buy-down) rather than permanent subsidies (e.g. interest rate subsidy) and caps in subsidized loan amounts, (b) improve targeting to focus subsidy toward the segments with the most urgent needs; (c) leverage commercial segment capital to multiply the impact; (d) pilot in specific areas, such as community redevelopment, to test effectiveness of products for specific targets, conditions etc.

Box 10.1 International Examples of Specialized Housing Finance Products

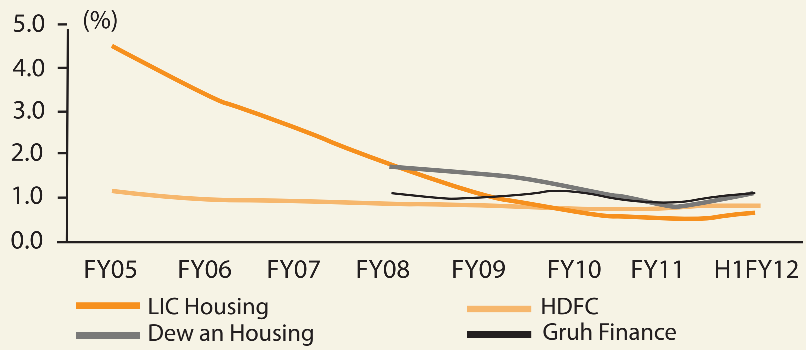
i. Housing Loans to Informal Sector Households in India

India provides a valuable example of lenders serving the housing needs of informal sector households. For example, there are two main Housing Finance Companies (HFCs) with a focus on non-salaried consumer segments: DHFL, for middle and low-end segments, and GRUH Finance. GRUH extends loans between USD 1,500 to 150,000, up to 20 years. They are secured both by mortgages and personal guarantees, with LTVs not in excess of 65 percent. Borrowers are existing customers with

Box 10.1 International Examples of Specialized Housing Finance Products (Continue)

a multi-year savings history. GRUH has a good knowledge of typical incomes generated by various trades in specific areas. It has developed an internal scoring model on which interest rate scales are based. The credit performance of the GRUH portfolio is very good, with the NPL rate falling to 0.32 percent in FY 2013.

Figure 10.3 Level of NPLs of Different Market Segments and Actors in India



Source: Companies , Emkay Research

In the wake of the market deepening initiated in 2008, new lenders have entered the informal incomesegment given the strongcommercial potential. There are now nine Housing Finance Companies active in this segment.

ii. Colombia Fondo Nacional de Ahorro: Housing Loans to Informal Sector Households

FNA is a public provident fund mainly covering severance compensation for salaried employees, funded by mandatory savings. FNA also extends housing loans to its affiliates. In 2007, FNA opened its operation to non-salaried households through a voluntary savings plan that entitles them to apply for a housing loan. Applications can be made after a minimum of 12 months and once the savings amount represents the equivalent of one month of income. Stated incomes are compared to household surveys conducted every year by the Colombian Bureau of Statistics, and verified during field visits. To assess applicants' creditworthiness, FNA looks at credit history if available, and applies an internal scoring model. Housing loans are secured by mortgages. The NPL rate inthis program is lower (5 percent in 2012) than other FNA loans.

iii. Habitat for Humanity: Housing Support Service Centers

This a one-stop shop model with the MFI leading the integration of various aspects of the building process. The MFI provides the following services:

– Helps the borrowers deal with administrative requirements (title, connection to infrastructure, building permit if necessary).
– Sets up lists of pre-qualified builders.
– Provides technical assistance in case of purely self-help construction.
– Provides the financing and disbursement according to the progress and quality of construction.

10.1.B. Strengthen the Housing Finance Sector's Capacity for Lending

Brief. Introduce prudent lending practices and standards, risk management tools, long-term funding alternatives and financial sector monitoring systems to ensure the safety, soundness and stability of the mortgage sector.

Target Group. SBV, financial institutions, other housing finance sector stakeholders (e.g. appraisal industry, Credit Information Center, legal foreclosure system).

Strategic Context. A real estate-driven downturn in 2009 to 2012 put stress on Vietnam's mortgage system (with NPL reaching double-digits, as per Fitch Ratings) and caused significant retrenchment in the market, from credit contraction to creation of the VAMC entity to help address bad debt portfolios of banks in a systematic manner. Other provisioning and debt classification rules were put in place to address weaknesses in the market. As the market slowly starts to heat up again, it is an important moment for SBV to perform thorough assessments of lending practices and standards and makenecessary changes to strengthen the lending system, while softening the potential impact of future downturns.

Program Description. It is recommended for the SBV to carry out a comprehensive assessment of the lenders' practices and standards, and then to develop a program of reforms to put in place general prudent lending practices and standards, risk management tools and monitoring systems to help ensure safety, soundness and stability of the lending system. These activities are described in more detail below.

a. Prudent Lending Practices and Standards

Strengthening general prudent lending norms. Banks generally put an emphasis on LTVs, lending generally between 70 and 80 percent Loan To Value (LTV), despite the uncertainties in the appraisal industry that may impact the valuation of property values. The 70 percent LTV in the proposed decree governing social housing development and management is in line with the risk related to this segment. Analyses of affordability do not match international best practices, with DTIs often above 50 percent. In part this may be attributed to the prevailing constant amortization schedule, anticipating significantly lower DTI in the near future due to lower payments and higher nominal income. However, the variability of interest rates and their historic volatility, are not sufficiently factored in the assessment. Overall, the affordability assessment may often be disconnected from borrowers' actual ability to repay, which heightens their credit risk.

A set of mortgage lending guidelines or instructions should be developed by SBV to generalize sound practices and lenders from relaxing their underwriting policies. Norms would aim at establishing a realistic methodology of assessing borrowers' ability to repay, including: (i) assessments of DTI, and their adequacy to various income levels. The current practice of a 60 percent limit is very high, and a regulatory ceiling should be considered. This measure becomes even more important when migrating to an EMI, rather than a CA repayment schedule. In the case of lower income customers, determining affordability based on earnings after paying for basic living expenses, rather than by applying a simple DTI on the total income is better practice[64]; (ii) the use of teaser rates for assessments of payment capacity should not be allowed; (iii) 'risk layering' should be avoided, i.e. where high loan risk factors are compounded. For instance, adding the irregularity of borrowers' incomes on top of unmitigated fluctuations in interest rates[65]. Finally, counter-cyclical prudential measures should be considered as is necessary. These measures could include adjusting parameters such as LTV limits, risk weights to create a differentiated set of loans, or provisioning requirements.

Mitigate credit risk generated by variable interest rates. Fixed rate products can only develop in parallel with the progress of capital market funding, thus adjustable rate mortgages will likely prevail in the near term. Given the historic volatility of interest rates, it would be important to promote market practices that limit the credit risk created byvolatile interest rates. Several ways exist to mitigate this risk, including the application of simple stress tests to check the resilience of borrowers to interest rate shocks. In addition, the inclusion of a cushion in DTIs (or in interest rates when determining payment capacity) will also help borrowers to

[64] Some lenders already apply this principle

[65] For example, to account for increased income and expenditure volatility, MFIs use only 2/3 of determined income to establish the capacity to pay for informal income households.

withstand such shocks (e.g. keep repayment installments constant – in the case of EMI-based repayment). Other actions include extending loan terms equivalent to the increase in rates[66], and smoothing out interest rate fluctuations by using a moving average of benchmark rates calculated over a period of at least 6-months.

Establish risk management practices at the portfolio level. In addition to prudent lending standards at the loan-by-loan level, mortgage lenders should also have principles to manage risks concentrated at the portfolio level. International experience has shown that correlated risks can result in large-scale default when an industry, a market segment, or a geographic region experience economic downturns. A portfolio-level lending policy should include exposure limits to higher risk products or segments such as non-owner-occupied loans, loans with higher LTV and DTI, informal income loans, and provide for periodic stress tests of the mortgage portfolio. In addition, analysis of portfolio performance, according to origin, would enable an understanding of how portfolios perform through the different economic stress cycles as well as their key risk factors that drive default.

b. Risk Management Tools

Improve the efficiency of mortgage rights. Execution of mortgages can be cumbersome and time-consuming due to contestations and delaying tactics by delinquent debtors. This factor could be significantly reduced if constraints on contestations were set, for instance: limits on the grounds for judicial recourse; limits on the timeframe for initiating them; the requirement of deposits set aside that would be lost in case of trivial recourse. In addition, judicial training could be undertaken to raise awareness of the importance of mortgage securities to be credible and play a dissuasive role on credit discipline, which will support the deepening of housing finance services in the lower income population and of the stability of the banking system. The suggested reform would not imply a significant change of the legal basis of mortgage lending.

Strengthen the appraiser industry. Although banks use the services of independent valuers, the appraiser industry is affected by several weaknesses, which creates stability issues for bank lending. Applicable regulation is limited to the delivery of licenses – a function that is split between the MoF, MoC and MoNRE. There are no norms governing methodologies, code of ethics, nor oversight mechanisms. A major gap is the difficulties to access information, which is essential for real estate valuations - appraisers largely maintain proprietary databases that are neither shared nor validated independently. The Housing Management Information System could be used to better organize the industry, including the development of procedures to document valuations, rules to access information, and a professional code of conduct.

Explore the feasibility of mortgage guarantees. Mortgage guarantees for low and middle income informal sector households can help to share and reduce risks if designed correctly. It is common for mainstream banks to abstain in general from lending long-term without clear income documentation. A government-sponsored guarantee fund can provide a 'stop loss' mechanism that encourages lenders to serve new customer segments within a certain level of acceptable risk. The guarantee should not however provide full risk coverage but preferably on a proportional basis, and possibly only above a certain threshold applied to the individual loan or across the entire portfolio, to ensure lenders' interest in managing and mitigating the credit risk remains for the duration of the loan.

c. Developing Solutions for Long-Term Funding

For the long-term health and stable development of the mortgage market, financial institutions in Vietnam need access to long-term funding at the cost of funds that can match the long-term maturity of mortgage loans. Progressively moving toward fixed-rate products, even only for the medium-term initially (i.e. 3 to 5 years), would be very positive for the sector, since the volatility of interest rates translates into an indirect

[66] This approach is common in India, yet this cannot be applied without limits.

credit risk for lenders. A long-term solution for Vietnam is to explore the establishment of a mortgage refinancing company (MRC), which is a common approach in a number of countries (e.g. Cagamas in Malaysia, NHB in India and SHF in Mexico). Such a structure is well-suited to nascent markets, such as Vietnam, by pooling lenders' funding needs (which are too small individually to efficiently tap the bond market), providing a new long-term investment tool to institutional investors, and helping to establish robust lending practices by setting quality norms for the mortgage loans it refinances. Financial authorities and market players are currently exploring the feasibility of a MRC.

If it appears that the development of long-term funding instruments is premature and not in line with the current capacities and willingness of institutional investors, an intermediary option would be to establish short-term liquidity support for mortgage portfolios at cost of funds. This would help lenders manage temporary liquidity shortages during the lifetime of long-term housing loans funded by deposits. Such a facility should be independent from the central bank and only secured by the collateralization of housing loans that meet pre-defined quality standards. Eventually, the liquidity facility could develop into a long-term funding provider. The NHB in India and the Federal Home Loan Banks in the USA, are good examples of entities that fulfill the dual function of long-term funds provider and short-term liquidity back-stopping.

d. Monitoring Tools

Develop 'early-indicator' monitoring tools. Monitoring can provide SBV with important early indicators of the health of the housing sector, which has follow-on effects for the rest of the economic and financial stability. Important data points include: home price movement, as well as the balance between housing supply (i.e. construction permits, under-construction and ready-for-sale inventories) and housing demand (i.e. the absorption rate of housing stock). Many central banks use these housing indicators to inform decisions on monetary policy and inflation adjustments. While MoC is developing the Housing Management Information System, coordination with the SBV will ensure that this data is effectively used to monitor the financial system as well.

Box 10.2 Moroccan Example of a Guarantee Fund for Informal Sector Segments

In Morocco, the government set up a specific guarantee fund, FOGARIM that provides partial credit guarantees on mortgage loans extended to households earning low and irregular incomes. The main eligibility conditions are the existence of a first rank mortgage, a monthly repayment charge below a certain ceiling (currently USD 180, and USD 100 in the case of relocated slum dwellers), which is a proxy for a limit on home prices and incomes that are difficult to verify. Lenders can submit claims after 9-months in arrears, and once the foreclosure process has been initiated. The guarantee covers up to 70 percent of the loss, and the premiums range from 0.25 to 0.50 percent per annum, depending on the LTV. FOGARIM supported 115,000 loans since 2004, or about 20 percent of all mortgagesin Morocco, while keeping NPLs at a reasonable rate in spite ofthe risk of the targeted segment.

10.1.C. Other Market-Making Measures to Improve Access to Housing Finance

In a context where financial services for housing are largely underdeveloped, it is necessary to implement a comprehensive strategy that encompasses multiple types of policy measures, subsidy programs, training as well as consumer literacy and awareness. Two of these measures are described briefly below:

a. **Support a national-level coordinating body.** As mentioned elsewhere in this report, an integrated strategy requires the coordination of multiple public agencies and stakeholders, which requires an over-arching authority to support policy design, institutional coordination and the management of subsidy programs. This type of institutional approach has been, or is in the process of being, developed in countries such as Mexico, Indonesia or Egypt.

b. **Build out and implement a framework for consumer literacy and protection.** Serving low income groups requires first enhancing financial inclusion. Confidence in the banking sector must be created, as well as awareness of the implications of being indebted, and understanding as to how to manage when consumers are in trouble financially. This requires information campaigns and also measures to ensure the transparency of lending, the ability for consumers to compare the conditions offered by different institutions, and the opportunity to make educated decisions. These components can be incorporated within the design of a consumer protection framework, as well as the development of advisory services especially targeting underserved categories. This would include legal and regulatory measures, as well as just-in-time awareness and training activities, and possibly the eventual development of a specific advisory network.

10.2. Land Management and Urban Planning

Access to urban land is arguably the largest challenge restricting the supply of affordable housingin Vietnam. To facilitate access to affordable and suitable land for affordable housing, it is recommended for the government to adopt a proactive and integrated land development strategy, adjust the land taxation framework and introduce a series of regulatory and administrative reforms toward improved land management.

10.2.A. Adjust the Land Taxation Framework

Brief. Phase out of the one-off land use fee, and move toward more market-adjusted annual land use and real estate taxes, which enable developers and households to budget for land and development administrative costs in a predictable manner, enhance local government revenues and aid in increasing the supply of land.

Targets. Broader land market.

Strategic Context. Revenues from land taxation are minimal (only 2-3 percent of total government revenue), as the rate of taxation is very low and the land values calculated in the Land Price Framework are far below market rates[67]. Simultaneously, high profits from land holding incentivizes speculation, reducing supply of land and causing increases in land prices to unaffordable levels, adversely affecting not only the poor but also middle income households, business and cities at large. Finally, local governments and the public also lose out from only capturing a small share windfalls during urbanization (e.g. during land use conversions from agricultural land to residential or from residential to commercial)) which significantly increases the market value of land. A portion of this value increase should be captured and used in the best public interest.

Detailed Description. As land taxes are collected and retained by local governments, they have an incentive to increase taxes to the level that enables them to meet their responsibilities. This can also strengthen accountability, governance and land administration. It is therefore recommended that:

- The LPF be gradually aligned with market prices, for example through more frequent valuation and/or alternative valuation strategies, and/or land auctions in case of new developments (see on LPLR above).
- The one-off LURC fee be reduced to an administrative charge, based on the cost of effecting the land use conversion, on the expectation that this would encourage higher registration levels. Similarly, any dues applicable to property transfers should be reduced to a nominal administrative charge, in order to encourage title registration and promote formality by expanding access to affordable LURCs and BOLUCs.
- The annual land value tax in urban areas be increased to cover the costs of land administration and other State responsibilities. This can be expected to increase public revenues and encourage those holding land for speculation to develop it, thereby increasing the supply of land for residential and related land uses, reducing land price inflation, improving housing affordability and stimulating economic growth. Progressive taxation imposed on the

[67] Dang Hung Vo, Nguyen Van Thang, T&C Consulting.Improving Land Sector Governance in Vietnam (Draft Report: Implementation of Land Governance Assessment Framework (LGAF). World Bank. Washington DC.December 2013.

areas exceeding quota (e.g. minimum lots) should be applied to guarantee social equality, prevent land speculation, and reasonably deal with projects delaying land development.
- Alternatively, if raising land tax rates is not viable, a new tax, such as a housing levy or property tax, may be introduced to achieve the same; however, this should be based, to the degree possible, on the value of land.
- In contrast, taxes on building should not be introduced and revenues generated solely from land, assessed by locality, plot size, levels of services provision and access to amenities.

At present, there are no taxes on land development or buildings in Vietnam. Whilst this may be considered a lost opportunity to generate tax revenues, especially in cases where substantial developments have taken place in some residential areas, the introduction of such taxes would be likely to deter some land holders from investing in land development, or encourage them not to register such developments, in order to avoid the tax. The highly variable nature of building developments, and their consequent variations in taxable value, would also present major challenges to land and property valuation authorities, raising significant risks of disputes and abuse.

It is important to raise land (or property) taxation gradually, as the tax may reduce the market price of land, given the additional outlay imposed by the tax and lower expected profits from the land. Thus, if the tax is introduced too fast, it may deflate the prices of land and adversely affect the value of assets that serve as collateral in financial contracts (e.g. mortgages), putting the financial sector at risk. Rapid introduction may also generate increased resistance. However, if the land tax or fee rate is increased gradually, then it aids in controlling unwanted land price increases. Secondly, such taxes impose relatively higher costs on land use right holders of underdeveloped land: while this effect is welcome to control speculation, it may negatively affect the poor. Therefore, it is important to introduce land taxes progressively so that low income groups, or those in modest housing, are protected.

Table 10.3 Risks Related to Adjusting the Land Taxation Framework

Risks	Mitigants
Underdeveloped valuation and appraisal sector hinders taxation reforms	Build upon existing private and public sector efforts in property appraisal, with goal of diversifying appraisal sector actors and deepening appraisal frameworks.
Property/building tax deters development activities	Adopt a tax that emphasizes inherent site value. If possible, focus solely on taxation of land.
Market responds negatively to raising of overall tax rates	Employ regular and gradual increase in tax rates, backed by strong local level appraisal and clear announcements to market and citizens.
Taxation negatively impacts the poor	Poor families may hold underdeveloped land, albeit in small quantities. To mitigate this risk introduce a progressive taxation regime, for example taxing land below a certain quota at a lower rate or allow alternative payments mechanisms (e.g. community service).

Box 10.3 Lessons from International Experience in Land Value Taxation

The potential for revenue mobilization through Land Value Taxation (LVT) is significant: for example, in Australia, LVT accounts for 100 percent of local tax revenues (Dye and England, 2010). LVT shifts a share of land value from the land use rights holder to the public sector, thereby aiding in the control of land prices and tempering of speculation. For example, a reasonable tax rate of between 2 and 4 percent captures between 25 and 40 percent of the land value[68]. For its wide-ranging positive impact, the mission team recommends that serious consideration be given to deepening value capture options in Vietnam.

[68] This assumes a real discount rate of 6 percent.

10.2.B. Adopt an Integrated Urban Development Strategy

Brief. Adopt a proactive approach to urban development that integrates land use planning with investment in major infrastructure (e.g. public transport) and public facilities, and ensure that there is adequate formal and affordable land for low income housing, which is well-connected to basic infrastructure, social facilities, employment opportunities, and other essential amenities. This can be achieved with amix of tools including: integrated master developments, Land Pooling and Land Readjustment (LPLR), land sharing and other land value capture mechanisms (e.g. betterment charges and exactions for development rights) that are capable of capturing some ofthe windfalls of urbanization for the public benefit.

Targets. All income segments.

Strategic Context. Many large-scale developments and land conversions in Vietnam's cities are homogenous in nature (i.e. single use of either residential, commercial or industrial) and carried out at the urban peripheries due to the low cost of land. This creates inefficiencies in city development as it increases distance and travel time between places of employment, places of habitat and other essential facilities (e.g. health clinics, schools). Other negative externalities include increased congestion, pollution, social segregation or exclusion, and encroachment of agricultural land. Focusing on strategies to promote more inclusionary and sustainable urban growth patterns, which include a mix of uses and good transport connections, will be important to ensure that cities continue to be effective at spurring economic growth, poverty reduction and other opportunities.

Detailed Description.

a. Revise urban master plans to reflect integrated land use planning

It is recommended to review and revise urban master plans to enhance planning of medium-density and mixed-use urban development, which stimulates a higher level of social interaction, economic development and reduces urban sprawl. In particular, there should be a focus on better integrating land use and transport planning, aligning a city's master plans with socio-economic development goals set out by MPI, and ensuring there are adequate provisions of land for formal low income housing. To achieve this, there will need to be coordination of all major governmental stakeholders (MoC, MoF, MoNRE, MoT, MPI and local governments) and tools put in place for enforcement, either through the revised land taxation framework, changes in development rights, or through direct government intervention, acting as amaster developer. Such an integrated approach also makes it easier to capture windfalls arising from government action during urbanization (e.g. infrastructure investments and higher value land use permits), making inclusive urbanization more affordable to government[69].

b. Pilot and roll out Land Pooling and Land Readjustment Projects (LPLR)[70]

LPLR is a long established policy instrument and is particularly effective in organizing efficient and coordinated development of land held by a large number of individual households or groups with small or mixed-size parcels. In a typical project, the authorized LPLR agency selects and designates the urban-fringe area to be developed and identifies the land parcels (and owners) to be included. A draft LPLR scheme is then prepared to plan, define and explain the project, and to demonstrate its financial viability. The scheme for each project therefore includes a map of the land parcels in the project site, a list of the landowners, the land parcels and their valuations; plans of the proposed road, drain, water, sewerage and electricity line networks and the plot subdivision layouts; a list of the plot valuations; a plot reallocation

[69] The City Industrial Development Corporation (CIDCO) in Mumbai, India, financed the complete costs of train and highway networks by selling land rights in strategic locations near transport nodes.
[70] For an early review of LPLR, see Archer, R (1999) 'The potential of land pooling/readjustment to provide land for low-cost housing in developing countries' in Payne, G (Editor) 'Making Common Ground: Public-private partnerships in land for housing' Intermediate Technology Publications, London.

plan; an implementation program; cost estimates and a financial plan. It also includes a written statement of the project objectives and principles, and the project implementation measures. The LPLR agency can consist of a local government's DoC, with guidance from PPCs and technical support from MoC's urban and land planning technical staff.

The LPLR scheme is prepared in consultation with the landowners in the project area and in co-operation with the public utility agencies that will be involved in its implementation. It is prepared as a draft scheme and then presented for majority approval by the landowners and placed on public display. After any necessary amendments, it is submitted for approval to the relevant authorities. It is recommended that pilot projects be undertaken in peri-urban areas of selected primary or tier one cities under urban development pressure and where land-owners are keen to maximize the economic potential of their land.

Interest in this policy instrument is already strong in Vietnam following land sector workshops in 2014 and 2015[71]. If designed properly, LPLR projects can also include additional provisions such as exactions of land (e.g. 30 percent of land for social housing, and 10 percent for revenue generation) and land auctions to generate revenues and to add value to the land[72].

Moreover, LPLR projects provide the opportunity to incorporate some or all of the following:

- Expand the supply of well-planned and serviced land based on the outcome of land needs assessments for selected primary and tier one cities.
- Capture some land for public purposes through exactions (e.g. 15 percent for roads, 15 percent for open space and amenities, and 20 percent for social housing as per Decree 188).
- Expand auctions of some additional land for revenue generation for public investment and to value the land and monitor market prices; and
- Once a proportion of planned and serviced plots have been sold to recover the costs of infrastructure provision and land development, the remaining plots are allocated back to the original land use right holders in exchange for their land. Although the area of land returned will be less than that held originally, the value will be significantly higher due to the granting of urban landuse rights and the provision of physical and social infrastructure[73].

c. Introduce land sharing in both redevelopment and new build sites

Land sharing involves the redevelopment of part of a site for sale to cover, or cross-subsidize, the costs of producing affordable housing. Land sharing can be particularly fitting for redevelopment of old public apartment blocks, where additional units can be sold at prices sufficient to recover the costs of re-housing the existing residents. Land sharing hasbeen used in Bangkok, Thailand, Mumbai, India and Jakarta, Indonesia to carry out self-financed developments and improve the efficiency of land use. The MoC has built provisions into new decrees for Housing Law 2015 that allow for mixed-used and market-rate housing as components of redevelopment projects. Such

[71] The LPLR workshop in Vietnam in 2014 brought experts from a India, Thailand, Korea, Australia and Japan to discuss a conceptual and methodological basis for introducing pilot LPLR projects in peri0urban areas in Vietnam.

[72] For example, the Town Planning and Urban Development Act in Gujarat, India statutorily define Town Planning Schemes, whichallow exactions to reach up to 50 percent forroads (15%), parks (5%), amenities (5%), affordable housing (10%), and additional land for auctions for revenue mobilization (15%). The latter also provide the basis for market-based land valuation.

[73] In the case of providing a portion of land to infrastructure developers, similarly to the Land For Infrastructure mechanism, it is important to ensure that the infrastructure developer is selected on a competitive basis. For example, the developer willing to build the infrastructure in exchange for the lowest-value land portion would receive the contract. In addition, land would only be allocated based on output, for example according to a predefined drawdown, ensuring the completion of all works.

provisions have the potential to incorporate land sharing.

d. Utilize transparent bidding frameworks, such as Requests for Proposals (RFPs)[74]

RFPs are a well-established policy instrument for increasing land use and planned development, as well as capturing the maximum benefit from market-driven developments for allocation in the public interest. They involve the preparation of briefs for undeveloped sites ready to be developed for a range of uses, including low income housing, at no cost to the authorities. Approved private sector developers are invited to submit proposals that specify a commitment to providing a range of mandatory components and as many of a range of additional components as they consider financially feasible. Sealed proposals are then opened in the company of a representative group of stakeholders and the one which commits to providing the most components is declared the winner and is free to implement proposals without delay. RFPs encourage fair competition between developers in ways which also meet specified social policy objectives and can consistently maximize the public benefit despite the fact that each site is unique. RFPs can begin in the form of pilot projects in selected urban areas.

Table 10.4 Risks Related to Integrated Land Development

Risks	Mitigants
Local governments continue to support urban expansion, despite lack of demand	Reduce adverse incentives for local governments to expand jurisdictions geographically, such as through adjustments in budgetary allocation to focus more on population density and less on population and geographical size.
Local governments lack capacity to carry out effective mixed-use planning	The Vietnam Institute for Urban and Rural Planning under the MoC could play a useful role in facilitating capacity building, for example through peer-to-peer sharing of effective models.
Land value capture as result of LPLR goes to non-housing use	Develop mandates to allocate fixed minimum portions of land value capture toward financing housing production.
Unclear regulatory framework distorts land sharing mechanisms	Structure legal requirements on land sharing to ensure government authority tomanage developer's activities around land development for alternative non-housing use.

Box 10.4 International Examples of Integrated Land-Use Planning and Land Value Capture

i. The City and Industrial Development Corporation (CIDCO) in India, was established in 1971 as a parastatal organization to develop Navi Mumbai to accommodate over 2 million people[75]. By selling land rights adjacent to and in developments at major transport nodes, CIDCO was able to cover the costs of major road, rail and public utilities provision. The application of LPLR proposals, known as Town Planning Schemes, also enabled the city to grow to its intended population on a largely self-financed basis.

ii. China Experience. Perhaps the broadest and most comprehensive application of value capture is in China, where municipalities buy adjacent agricultural land from farmers at agricultural use prices, service it with infrastructure, and sell it to developers as urban land with permits for urban development. The difference in price between the land's urban value and its agricultural value accrues to the municipality, provides a large share of local revenues, and pays for the installed infrastructure[76].

[74] The main characteristics, benefits and limitations of RFPs are summarized in the Appendix.
[75] http://www.cidco.maharashtra.gov.in/NM_Introduction.aspx
[76] Ingram, G. K., and Ong, Y-H (2011) 'Value Capture and Land Policies' Proceedings of the 2011 Land Policy Conference, Lincoln Institute of Land Policy Studies, Cambridge, MA.

Box 10.4 International Examples of Integrated Land-Use Planning and Land Value Capture (Continued)

iii. Latin America. There is considerable international experience in land value sharing, which enables land administration agencies to capture a reasonable proportion of the added value generated by state action for allocation in the public interest, including:
- Land Pooling and Land Readjustment to finance pro-active inclusive urbanization
- Betterment charges to recover public investments in technical and social infrastructure
- Exactions in exchange for the authorization of higher-value development rights.

10.2.C Other Market Making Measures to Support Land Supply

a. Review the regulatory framework of planning standards, regulations and administrative procedures. MoNRE and MoC can collaborate to determine where changes can most quickly generate improvements. It is recommended that such reviews take place every five years or so to ensure that the regulatory framework for land management and urban planning responds to changes in the market and in people's needs. It should be noted that significant progress has been made by MoC and MoNRE in simplifying the procedures for registering LURCs and BOLUCs as reflected in the decrees drafted to implement the 2015 Housing Law and the Land Registration Law.

b. Establish some form of over-arching co-ordination body on land administration. At present, MoC, MoNRE, MoHA, MoF and MoJ have direct influence over aspects of land administration and the overlap this generates is replicated at provincial and local levels. Overlaps are particularly strong between MoC and MoNRE. A coordinating body need not take the form of a statutory body and could consist of a Ministerial Coordination Council or Task Force, with high-level representation from all relevant authorities at central, provincial and municipal levels, with the mandate to reduce duplication and improve governance on land. Alternatively, the government may consider bundling the functions of multiple line ministries into a single body, provided that reduces the overall number of actors involved and responsibilities and leadership roles are assigned clearly (see Recommendation 10.6.A).

c. Expand the existing system of 'One-Stop-Shops'. These are currently located in some provincial land administration offices and provide services linked to each sectoral department. It is recommended that consideration be given to increasing the number of such facilities, relocating them within residential areas and restructuring them to provide a wide range of services. In Andra Pradesh, one-stop shops located in residential areas of Hyderabad have been successful in providing functions ranging from birth, marriage and death certificate applications to passports, land transfers and building permits. This has improved governance and ease-of-service.

d. Reclaiming undeveloped land allocated to developers, but not developed within the specified 24 month time period. Improved enforcement of the requirement on developers to develop land within the stipulated 24 month development period can significantly increase land supply and therefore reduce land price inflation. New measures built into adjustments to the Housing Law and the Real Estate Law requires developers to pay an additional land use registration fee past the first 24 allowable months to start development. Such measures should be effective, yet should also be accompanied by revoking of land use privileges should further delays persist.

e. Increase the area of land allocated under Decree 188 to small-scale developers. Allocating some of the 20 percent of land allocated for social use rule under Decree 188 for small-scale developer or citizen-initiated housing would help to overcome current fiscal constraints faced by local governments, as the selling off of land parcels for self-development could easily pay for the cost of infrastructure and amenity provision.

10.3. Affordable Rental Housing

Enhance supply of affordable rental housing with private sector participation, particularly in industrial zones, for migrant workers, students and low income families. Key objectives are to improve the quality and formality of existing rental housing stock, stimulate new supply of affordable rental housing to meet demand and to enhance the affordability of rental options for the lowest-income and most vulnerable groups.

10.3.A. Invest in Supply-Side Support for Affordable Rental Housing

Brief. Invest in an affordable rental housing program, driven by local governments, where supply-side support is provided to private rental housing providers through capital grants, infrastructure delivery, and concessions on land. This will help to reduce the cost of affordable rental production for target priority groups (e.g. the lowest income, migrant workers and students) and to build a set of competent and accredited rental housing actors.

Target Group. Industrial zones, migrant workers, low income households in Q1-Q2 segments.

Strategic Context. With a high and growing numbers of workers in industrial zones, as well as a large number of low income urban dwellers unable to afford to purchase a unit, the demand for affordable rental housing is substantial. Only 10 percent of the existing 2.25 million industrial workers are served by decent housing, while 78 percent are estimated to live in rental housing. Meanwhile, the student population, at approximately 1.6 million people, is increasing. There will be limited formal supply for the lowest income and most vulnerable groups without relaxing regulatory hurdles, as well as introducing additional incentives and support for rental housing providers to make these projects financially feasible. Public investment is important to fill the funding gap between what is affordable to low income groups and the total cost of the production and management of a quality rental unit over its lifetime.

Detailed Description. Develop a set of subsidies and incentives for private sector provision of affordable rental housing for high-priority and under-served groups. Subsidies would be provided to qualified actors via capital grants, provision of infrastructure and concessions on land. Access to these subsidies will require an actor to be accredited, make a commitment to maintain rent at affordable levels and to rent units to specific target groups, such as students, resettled slum-dwellers, low income or vulnerable groups (e.g. people with disabilities, elderly), depending on need.

Specific program characteristics may include the following:

- Central government designs overall program rules, including funding sources, target groups, eligibility criteria, RFP templates, implementation steps, and reporting requirements etc.
- Implementation of the program is locally-driven. The DoC of PPCs play a lead role in identifying local needs, suitable locations, mobilizing land and engaging local rental housing providers and small landlords.
- Capital subsidies are delivered and monitored through PPCs, and local budget may be allocated for concessional provision of land as well as infrastructure delivery.
- Rental housing providers should have a set of minimum competencies to become accredited to receive subsidies. These could be non-profit or for-profit actors, state-owned, small private enterprises or employers in industrial zones.
- Grants to rental housing providers can be calculated based on the income of end-users,

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[77] These grants could make up to 60-100% of capital costs of a project. In South Africa, grants combine up to around 70% of total construction costs for projects where 30% of subsidized units are targeted at very low income (earning between R1500 – R3500 per month or VND 2.7 – 6.3 million) with maximum rental of R750 per month (VND 1.3 million), and the remaining 70% are targeted at households of the 'secondary target market' (i.e. earning between R3500 – R7500 per month or VND 6.3 – 13.4 million) which can be charged up to R2,250 per month (VND 4.0 million). Violation of these terms result in the SHI being required to partially repay the subsidy amount.

location, number of units and require keeping the rental price below a stipulated affordability maximum for a period of time, for continued rental or rent-to-own[77].

- The central government would play a lead role, working with local governments, in designing and funding the capital grants, as well as associated TA and accreditation process for rental housing providers in the program.
- Local governments would be responsible for assessing needs, vetting and approving projects, as well as delivery of infrastructure and supporting access to suitable well-located land (this may be facilitated through concessional leases on public land or utilization of Decree 188).

Figure 10.2 Affordable Rental Housing Initiative

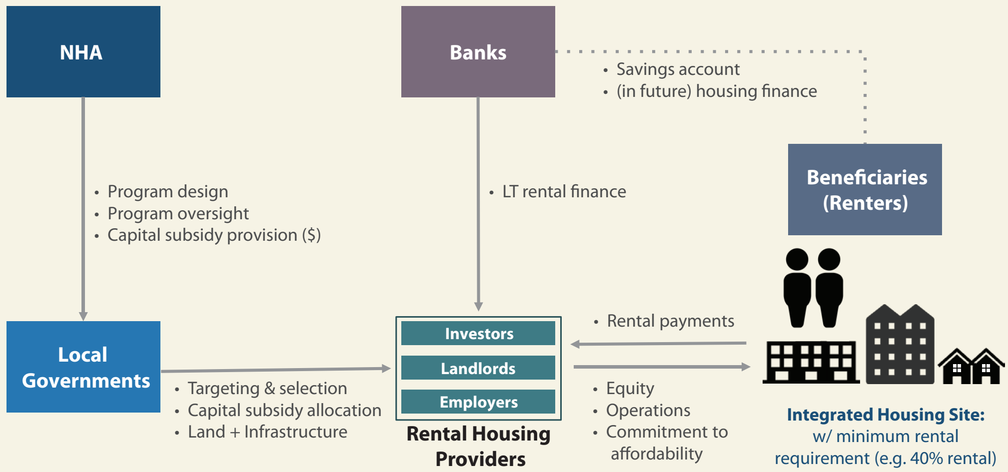

Table 10.5 Risks for the Rental Housing Capital Subsidy Program

Risks	Mitigants
Limited interest by investors	Subsidies will need to be carefully calibrated through thorough market assessment and financial modeling to ensure that affordability can be maintained, while providing sufficient income to attract investors.
Poor operations and management	Upfront project subsidies are simple and transparent, yet there is a risk that developers are incentivized to build projects without a proper management system being in place for the lifetime of a project. Develop standards and guidelines for accredited actors in the management and operations of rental housing projects (including tenant agreements, rent collection, non-payment measures etc.). DoC also should carry out periodic checks on the conditions of rental units and set in place penalties for non-compliance.
Capacity of governments	Carry out trainings and a set of minimum conditions for a local government to participate in the program. Pilot the program with only a few high-capacity local governments to start with, to create best practice models, and promote peer-to-peer sharing.
Regulatory hurdles	Ensure that business registration and accreditation guidelines are simple and support new market entrants. Revise building standards to provide more flexibility for rental housing providers.

[78] See more information: http://www.shra.org.za/.

Box 10.5 International Experiencein Supply-Side Rental Housing Programs

There is extensive experience over the past century of public investment in rental housing programs. Although an argument can be made for keeping land and housing assets in public ownership to ensure that there is space in the city for the most vulnerable, such an approach is not easily scalable and is insufficient to respond to the magnitudeof the demand. Increasingly, governments are shifting toward the use of more efficient instruments, such as land-use controls and targetedsubsidies to engage and leverage private sector investment and expertise in low-cost rental housing production and operations.

i. South Africa's Social Housing Program. In 2004, South Africa began to develop a sophisticated social rental housing program. A new entity, the Social Housing Regulatory Authority (SHRA) was created to design regulations, accredit Social Housing Institutions (SHIs), administer grants and support development of the sector.SHRA offers two types of subsidies, the Restructuring Capital Grant for specific projects, and the Institutional Subsidy direct to qualified SHIs. The SHRA, along with the National Association of Social Housing Organizations (NASHO), and the South Africa Local Government Authority (SALGA) work together on capacity-building of SHIs and local governments, as well as undertaking market studies to support development of the rental housing sector[78].

ii. Subsidized Rental Housing in the United States. The U.S. has a long history of investment in affordable rental housing. From 1935-1970, large-scale rental projects were built and managed entirely by public sector. Poor location choices (adverse selection of land use alternatives), clustering of the urban poor ('income concentration'), and untrained public-entity owner/ managers led to severe social and health issues in public housing. From 1970-2015, all new US affordable rental housing has been via PPPs with the private sector (for-profit and non-profit), principally through an investor-targeted capital subsidy tied to long-term affordable use. The dominant resource today is the Low income Housing Tax Credits (LIHTC), plus soft-debt funding via HOME or state-level housing production initiatives.

- The LIHTC provides tax credits to private investors in return for equity investments in privately-owned rental housing developments with restricted rents (often set below 18 percent of the median household income). This program has been active since the late 1980s and produces between 60,000 and 100,000 units per year.
- The HOME program is a housing block grant to city, county and state "participating jurisdictions". Cities can choose how to use funds, though most use a substantial portion of the grant for rental housing production.

10.3.B. Demand-Side Rental Housing Assistance

Brief. Introduce time-bound rental vouchers to improve the capacity of the poorest familiesto pay for housing in accredited units. Vouchers should use a simple and transparent allocation system (e.g. based on income, type of household, type of rental unit) and not be limited by a beneficiary's residential status.

Target. Lowest income Q1 households, and vulnerable groups (e.g. elderly, disabled).

Strategic Context. Even with supply-side support, many households, with the lowest income, will still lack the capacity to pay for affordable rental housing. Households in the Q1 market segment earn on average VND 3.98 million per month, and given the high percentage of income that goes on food and transport, will only have around VND 600,000 for housing. There are also around 1.6 million urban households that are classified as poor. In order to assure that these people have access to housing, and that there is adequate cash flow for a rental housing provider to maintain a quality rental unit, the government can provide a direct subsidy, through a rental voucher, to the poorest and most vulnerable households. This interim support can allow a poor household to become better integrated into other social development and income-generating programs and work towards increasing income and financial capability to manage their own housing situation in time.

Program Description. Demand-side rental housing vouchers directly support low income tenants to obtain decent rental housing by increasing their ability to pay. These vouchers can be targeted at the lowest income households and could be delivered directly to the landlords on a monthly basis to supplement a tenant's payments.

Such a program might have the following characteristics:

- Households are qualified based on income determinants, requiring up-to-date information on beneficiaries. Selected beneficiaries are then able to select from the list of pre-qualified rental units in a set amount of time (e.g. 60 – 90 days).
- Local governments would play a primary role in identifying and verifying beneficiaries as well as rental units. This could be done using the existing poor list as the basis and combined with other social assistance programs to minimize costs for administering the program. Ideally, there would not be restrictions on residence status.
- Units rented through the program must meet a minimum set of housing quality and contractual standards. Units are pre-qualified by the local DoC before households can occupy them and are checked periodically during a household's tenure. Units may be provided by accredited rental housing providers and landlords, which have participated in the capital subsidy program.
- These vouchers could be distributed to landlords via commercial banks. The use of banks would have two major benefits: (i) provide an incentive toward formal financial inclusion of poor households and development of a regular payment and credit record, and (ii) reduce barriers to social assistance related to a household's residence status.
- A simple and transparent system can be used whereby the subsidy is flat for each eligible household, requires co-payment, and there are maximum controls on the type of rental units and rent level (e.g. max. size of $40m^2$ and spend of around 25 percent of income).
- The rental vouchers can be combined with supply-side interventions to affordable rental, and launched under the umbrella of an affordable rental housing program.

Table 10.6 Risks Related to Rental Housing Vouchers

Risks	Mitigants
Rental price inflation	A large number of voucher holders could push up rent prices. This could also occur where landlords artificially inflate rental prices to the maximum allowable level of the program. In order to mitigate this risk, in-depth assessments of the local market should be carried out in order to design a voucher that minimizes distortions. Vouchers could also be rolled out incrementally in order to first test the market impact.
Limited supply of rental units	There may also be reluctance by landlords to rent to low income households that qualify for vouchers if the administrative steps are too complex, or the government becomes involved (i.e. rent must be reported), and upon non-renewal of the voucher the landlord would have to find another tenant. The voucher program should be designed with engagement and input from potential landlords to ensure that it supports maximum participation.
Beneficiary reliance on program	If the voucher is means-tested or means-adjusted, perverse incentives arise where recipients are penalized for earning more money, marrying (and adding an income), or other self-improving activities. A flat-subsidy is recommended to avoid these issues and also due to the difficulty to reliably measure household income in Vietnam.There should also be efforts to coordinate voucher eligibility with other livelihood and savings programs, so that beneficiaries have an exit strategy.
Poor program administration by local governments	Administering 1-on-1 landlord-tenant arrangements is management-intensive; many steps are involved. There is a risk that substandard units or households with incomes above the maximum threshold are allowed to participate, or that local governments do not have sufficient resources to properly manage the program. Local governments need to be trained, capable, transparent, and reliable in identifying qualifying households and rental units for the program. Only those local governments that comply with these minimum standards will be able to participate.

Box 10.6 International Experiencesin Rental Housing Vouchers

Rental assistance schemes are becoming increasingly common in countries around the world. These include the Housing Choice Voucher Program in the US, the housing benefit in the UK, the Commonwealth Rental Assistance (CRA) program in Australia, as well as rental assistance to low income households and students in Netherlands and France, and many others. These international examples show that there are a number of options in the design of a rental housing voucher program, based on overall objectives. For example, use of a flat subsidy structure can avoid complexities of measuring incomes[79] and the negative incentives on income that result from an income-based subsidy[80]. Also, it should be decided whether housing subsidies can be stacked or not[81], whether vouchers are a universal right or limited in number on a first-come, first-served or waiting list basis[82]. Also, rental assistance programs are often integrated with other social support and income generation activities to better leverage support to help households out of poverty.

i. The U.S. Housing Choice Voucher Program. The U.S. has a tenant-based rental assistance program administered by the local Public Housing Authorities. Households contribute 30 percent of their income toward rent, and a voucher is paid to the landlord by the federal government up to a 'fair market rent' (FMR). The FMR is based on a percentile of market rents in the local housing market as determined by periodic survey. Target households must be poor (income 50% or less of area median income, adjusted for family size), and they must use the voucher (find and rent a flat) within 60 days of receipt, or they lose it. In 2010, the federal government provided over $50.2 billion in housing assistance to over 2.2 million households.

ii. Chile's Rental Housing Subsidy. Introduced in 2013, Chile's rental housing subsidy is aimed at low- and moderate-income young families. The Ministry's 15 regional offices carry out application, enrollment and housing inspections. Administration of the rental subsidy relies heavily on private banks. Chile uses a flat-rate, time-limited subsidy that offers a degree of administrative simplicity and payment flexibility for tenants facing income volatility. There is a considerable amount of flexibility built into the program – landlords agree on terms and tenants can miss a payment three times during their tenure before eviction proceedings.

10.3.C. Other Market-Making Measures to Support Affordable Rental Housing

There is also a set of supporting activities to improve the market environment for private sector provision of rental housing, by removing the legal, technical and financial barriers. This includes revision of the legal and taxation framework, improving market information, supporting development of suitable financial products and providing technical assistance to build competent local governments and a set of capable rental housing providers.

Activities to improve the market environment for rental include the following:

79 In the UK, the rental subsidy program is considered complex and difficult to both understand and administer. The complexity of the calculation of the rate of rental subsidy leads to the occurrence of errors in the administrative process, resulting in over-payment (£840 million in 1997/98) and delays in payment. The US is similar to that of the UK. HUD estimates that there is an overpayment of US$2 billion (HK$15.6 billion) for all housing assistance each year because of incorrect rental calculations.

80 In the U.S., households must pay 30% of their income, which acts like an income surtax, and incentivizes them to avoid formal employment.

81 In Australia, the CRA is exclusive of other forms of social housing assistance (i.e. public housing tenants are not eligible). In the US, and particularly the UK, there is stacking of rental demand and supply-side assistance in order to reduce rents to more affordable levels. In the UK, this is also used to provide the cash flows necessary to secure private financing of capital loans for new social housing development. Accordingly, there is a symbiotic relationship between rental assistance and separate supply programs.

82 In Australia, France, Netherlands and the UK, the rental housing benefit programs are a means-tested universal entitlement and thus broadly subscribed by low income households. In the US, roughly 1 in 4 eligible households receives assistance, and the average time on a waiting list is many months, often many years.

a. **Strengthen the regulatory framework** for rental housing, focusing in two primary areas:

- Clarify and balance the legal relationship between tenant and landlords, building on the rights outlined in the new 2015 Housing Law by detailing into implementing decrees and practice[83].
- Increase flexibility in law on rental accommodation. Relax standards in Decision No. 77/2006 to help to regularize existing landlords and informal rental units, including simplifying the business registration steps and minimum open space requirements.

b. **Explore income tax waivers to support affordable rental housing production.** Consider introducing income tax waivers and land use fee waivers to registered businesses providing rental housing at a low cost (e.g. below VND 2 million per month) in order to facilitate a reduction in informality.

c. **Stimulate innovation of supply-side development finance, including off take financing.** Two types of development-related finance essential for affordable rental housing production at scale are largely absent from Vietnam: (1) construction loan/ development loans, and (2) reliable 'bulk offtake' finance (e.g. for institutional investors seeking to buy completed and occupied properties). Banks that are properly incentivized with risk-mitigation measures will create or actively use specialized long-term financial products for investors providing affordable rental or rent-to-buy solutions, as well as housing microfinance for self-built rental housing solutions.

i. In the short-term, guidelines on financial product development could be developed and banks could be engaged in discussions (e.g. using the VND 30 trillion stimulus package) for new development and conversion of vacant/unfinished units into rental and toward self-built affordable rental units[84].

ii. In the medium-term, a credit line or liquidity facility for long-term rental loans can be opened up to primary lenders in order to stimulate the development of rental housing finance. This credit should be provided at market rate through a limited-liability entity, such as a Secondary Mortgage Facility or the Vietnam Development Bank and could be funded by government-issued bonds or other securities.

d. **Provide technical assistance to build capacity.** Develop resource materials, guidelines, toolkits and trainings to build capacity of rental housing providers and local governments. These materials could include a standard template for rental housing contracts, guidelines for registration of businesses, structuring project finance for rental housing and carrying out feasibility studies. TA should be aimed at small landlords, larger rental investors, as well as local governments to strengthen each actor's role in developing the rental housing sector.

e. **Improve market information of the rental sector.** MoC, through the Housing and Management Information System, should build a system to regularly collect and report out rental market information, including statistics on rental prices, default and eviction proceedings. This will help to overcome information asymmetries, so that investors can more accurately assess risk, identify business opportunities, as well as help to inform government policy and subsidy targeting[85].

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83 For example, clarifying the contractual obligations of both parties, tenant and landlord rights, legal procedures for eviction, exploration of a simplified dispute resolution process for landlord-tenant disagreements.

84 The Revised Housing Law of 2014 states that affordable rental is a target of the credit package, however there are not yet clear guidelines on how these projects should be structured.

85 Public sector entities collect and publish figures on rent levels in both Germany and the United States. Reporting cases on non-payment of rent to financial information centers can also help landlords screening potential tenants and creates greater incentive to make payments. A Mexican rental insurance company has reported a drop in late payments from 30 percent to 5 percent, once this information was reported (Peppercorn and Taffin, 2013).

Box 10.7 Thailand's Long-Term Credit for Rental Housing Investors

Thailand has had a successful experience in providing long-term credit for rental housing production via the Government Housing Bank (GHB). In Thailand, the GHB encourages small landlords that own land to construct low-cost rental apartments with very affordable loans. GHB provides up to 100 percent of total construction cost with long repayment periods of up to 15 years. This compares to an average 5-7 year repayment period across other lenders.Rent for GHB-supported apartments is limited to between Bt2000 to 4000 per month (VND 1.3 – 2.6 million). Currently, more than 8,000 landlords have developed rental apartments and rental housing loans outstanding have grown steadily from USD 489 million in 2006 to USD 2.1 billion in 2011 (an average increase of about 34 percent per year)[86].

10.4. Self-Built Housing

The aim of these recommendations is to focus government support on facilitating self-built housing, by providing assistance where households are unable to formally self-provide, including basic infrastructure, access to affordable housing microfinance and technical assistance, and provision of basic core units that provide a formal start and eventually become decent through self-built improvements and expansions. There is also a broader set of recommendations toward creating an enabling environment for self-built housing development in well-serviced and connected neighborhoods.

10.4.A. Develop a Program for Expandable Starter Homes

Brief. Deliver incrementally expandable starter core units in serviced subdivisions in order to facilitate self-built production of new affordable housing, provide households a formal start in their housing career and facilitateout well-managed urban development.

Target Group. Households in Q1 and Q2 income segments.

Strategic Context. Households in Q1 and Q2 income segment have low purchasing power and most are unable to formally self-build a decent housing unit in urban areas. The core house initiative ensures that families have a basic starter home and access to basic infrastructure, enabling a formal start in their housing career. Starter homes mitigate negative externalities that arise from completely self-provided solutions in informalareas, such as public health issues due to lack of basic infrastructure. In comparison, theproposed anticipatory strategythat uses starter homes to accommodate urban growth is less costly. Infrastructure provision in already established yet under-serviced slums costs about 2.5 to 8 times more than a core housing approach, based on experience in Latin America.

Detailed Description. Projects would include land acquisition and production of new starter units for ownership, lease and for rent-to-own. Home-owners can then incrementally modify their core starter units according to their needs, preferences and available resources in their own time.

Core units maybe developed on large scale by a private developer, through a cooperative movement, or through a mix of both.Core units are typically one-floor with at least one room of twelve square meters or larger, and are move-in ready, so that households do not need to pay rent while self-developing the starter core. Historically, development of both sites and services can be very slow if low income households have to finance both. Support to further speed-up incremental construction and improve the quality of expansions should be considered, in particular, access to both affordable housing microfinance and technical assistance.

Land tenure may be provided in the form of shared or individual land use right certificates, depending on market demand and household preferences. It is possible to facilitate multi-

[86] Kritayanavaj, Ballobh. Affordable Housing in Thailand.Asia-Pacific Housing Journal. December 2012.

story starter cores in areas either with high land cost, particularly if graded land use zoning and infrastructure provision are unable to effectively reduce land cost. However, multi-story starter core solutions are not recommended for the first pilot phase, due to their technical complexities.

Economic simulations indicate that it is possible to finance formal starter cores without subsidies in many locations, particularly in expansion areas of larger cities – provided there island value capture of windfalls during urbanization.

The main source of funds would be household savings for a down-payment, typically covering the land cost and micro-housing loans to finance the remaining cost of capital. The starter core and/or infrastructure provision may receive financial support to mitigate negative externalities; however, subsidies should be minimized to ensure that resources are sufficient enough to address the housing challenge at the necessary scale. In urban areas with higher land prices, a larger subsidy may be required; however, the cost to government is expected to be a fraction of the current 30T interest subsidy scheme's average per-unit cost to government (approximately VND 115 million). Lastly, where land is expensive, high-density housing solutions, likely driven by developers but providing scope for user-driven improvement and expansions, can reduce cost. This approach can first be piloted to test the needs for trainings, as well as technical alternatives.

Box 10.8 International Experience in Sites and Services and Incremental Housing Programs

Sites and services and incremental housing programs at suitable locations and with cross-subsidies between different land uses are considered an international best practice. Davidson & Payne (2000) and Caminos & Goethert (1978) provide excellent textbooks on the matter. Governments, with support of bilateral and international agencies, have facilitated the development of many million housing units worldwide:

i. The Egyptian case of 'Build Your Own Home' demonstrates a process for incremental expansion into multi-story homes, to address high land costs.This is made possibly through a clear incentive framework, allocating subsidies based on a timely construction process and vertical growth of the house. The allocation of appropriate land and physical planning of the districts are the government's core responsibilities, including the arrangement of the plots and the provision of infrastructure and services – such as access to water, electricity and sanitation. Successful applicants receive a plot for self-development after a down-payment of 10 percent. The rest is financed over a period of seven years. To promote timely construction, beneficiaries are exempt from repaying any outstanding installments, once the three-floor house is completed and externally finished. In addition, the government subsidizes the construction of the ground floor unit in order to make it easier for the household to move in, and to speed up the construction process. This approach may be suitable for middle income households.

ii. The Ciudad Bachué incremental housing project in Bogotá, Colombia provides walk-up blocks with expandable starter apartments. Ground floor maisonettes, sometimes with a fill-in mezzanine, are expanded horizontally. Upper floor apartments expand vertically on the rooftop. The structural core is designed to support up to 5 floors, which is enforced through collective action. The multi-story buildings and improved finishings provide an attractive modern image for a neighborhood. This approach could be adapted in locations with high land cost. In addition, the project provides single-story starter core row houses on narrow lanes, which are expanded vertically. This approach may be suitable for areas with low and medium land costs. Finally, the different characteristics of the stacked maisonettes and row houses suggest combining the two approaches on a single site, differentiating between locations with higher and lower land values, for example on larger access roads and smaller side lanes.

iii. PREVI in Lima, Peru, is a famous international architecture competition facilitated by the government in collaboration with the UNDP: the competition sourced solutions from national and international experts for designing high-density, incrementally expandable starter homes. The

Box 10.8 International Experience in Sites and Services and Incremental Housing Programs (Continued)

competition winner entries were later constructed, providing incremental housing for the middle class. Such an approach could be used to find innovative solutions.

v. The case of Pekine in Dakar, Senegal validated the incremental concept by the fact that for every $1 of public funds, some $8.2 of private funds had been invested in housing in the neighborhood within approximately 5 years. However, the project also illustrates the risk that too high standards may lead to rapid gentrification through sale to higher income households.

10.4.B. Neighborhood Development and Improvement of Substandard Homes

Brief. Address the qualitative housing deficit by providing underserved neighborhoods with basic infrastructure and 'crowding in' microfinance integrated with technical assistance to allow households to carry out quality home improvements and incremental expansion.

Target Group. Households living in under-serviced or underdeveloped areas and/or in substandard units

Strategic Context. According to the 2009 Census, there are an estimated 4 to 5 million housing units that are substandard: approximately 1 million households live with overcrowding, (sharing units or living on less than 6 m^2 per capita), 4 million units are constructed of non-permanent materials, and 2.8 million units lack access to safe water and/or sanitation. Urban upgrading of affected housing clusters provides economies of scale while encouraging maximum contribution of efforts and funds by the community. It also reduces negative externalities caused by poor sanitation and lack of infrastructure (such as public health or social issues), and provides a platform for housing investments, such as incremental home improvements and development of housing microfinance[87].

Detailed Description. There are two main aspects to this program, supporting neighborhood improvements as well as individual housing improvements. These are described in more detail below:

a. Improve under-serviced neighborhoods through provision of basic infrastructure

The first step in the process is to help eligible neighborhoods organize themselves on a community-based participatory platform as the four different alternatives[88] for community development are assessed: (1) in-situ upgrading, (2) in-situ land sharing, (3) in-situ redevelopment or (4) relocation. Relocation disrupts household livelihood and can be costly economically and so this should only be considered if the area is unsafe for occupation or the cost of risk mitigation measures (i.e. flood retention or improved drainage) are prohibitively high. Relocation may also be required if the area is to serve for city-level arterial infrastructure, however, whenever possible, this should be avoided through land sharing and project design alternatives. The intervention includes the following aspects:

- Organize the community according to the participatory framework
- Provide basic physical and social infrastructure (e.g. water, sanitation, electricity, streetlights, drainage, street surfaces, education, health, cultural facilities) in under-serviced communities.
- Improve the *de facto* tenure security of households, for instance, by organizing them under collective tenure with debt-financed LURC for a long-term land lease.

[87] For an international best practice, refer to the Parivartan Slum Networking Program in Ahmedabad, India that was collectively implemented by the Ahmedabad Municipal Corporation and the microfinance institution and women union SEWA. A combination of similar actors already exist in Vietnam.
[88] Patel et Al (2011).

- Mitigate hazards or relocate communities on a voluntary basis, and increase the density of underdeveloped areas, if applicable.
- Introduce housing microfinance to support incremental home improvements through a savings-linked housing-microfinance product. Savings is a tool that ensures community buy-in while allowing lenders to assess the payment capacity of informally employed households. Once saving patterns are established, microfinance institutions are able to provide loans that are larger in size with longer terms for incremental housing investment (see the case of Parivartan in Box 12).

b. Support improvements of existing dwelling units through access to housing microfinance and construction technical assistance

Improvements may include incremental expansion, the upgrade of structural safety or quality, and/or individual connections to basic utilities (e.g. individual water tap, individual toilet, access to electricity). This will be facilitated by supporting households in substandard dwellings to access housing microfinance combined with construction technical assistance. Suitable housing microfinance loans are expected to be between VND 10 and 50million[89] for neighborhood improvement, home improvement, and expansions. Through financial simulation, it appears that incremental home improvement loans are economically viable without subsidies to Q1 and Q2 households. However, if the government decides to allocate subsidies to other housing programs it should consider supporting the sector to speed up the incremental construction/loan cycles and, possibly, to increase the size of each investment cycle. Construction technical assistance is an integral part of housing microfinance, ideally financed through an interest rate spread, and can help to reduce the cost of construction while ensuring better construction quality.

Lastly, private rental units are typically created through incremental expansions particularly by adding additional floors. Construction of private rental units may be supported in coordination with the rental program.

Box 10.9 International Experiences in Urban Poverty Reduction and Home Improvement

i. The Parivartan Slum Networking Program in Gujarat, India provides basic infrastructure to underserviced communities working in close participation with residents. The program develops the infrastructure, based on community preferences and solutions, to minimize the potentially adverse impact of construction works. It also crowds in housing microfinance:by requiring a small co-payment of approximately 10 percent of total basic infrastructure development cost, beneficiaries establish a savings and credit history. Building on this history, residents are eligible to a subsidized loan for constructing individual water and sanitation facilities. After repaying the second loan, community members are eligible to small home improvement loans, which are typically not subsidized any more. All loans balance the affordability, project size and lending exposure in an optimal, incremental way. The program is complemented through enhancement of tenure security through a no-eviction guarantee, enabling the delivery of microfinance. The fact that no formal tenure is given also reduces the likelihood that better-off households capture subsidies (see on downzoning below). This case is a suitable example that, together with Vietnamese experiences such as VUUP, could inform the scaling up of a national urban poverty reduction and home improvement program.

ii. Baan Mankong Upgrading Program, Thailand is a good example of a community-government partnership, which channeled government funds, infrastructure subsidies and soft housing loans directly to the poor who then jointly design and execute improvements to their homes, environment and basic services while managing the budget themselves. In 2003, the Thai Government announced an ambitious policy to address the housing needs of the urban poor,as part of this program

[89] At present, VUUP loans are mainly VND 15 million. However, loan sizes may increase if reaching out to Q2 households.

Box 10.9 International Experiences in Urban Poverty Reduction and Home Improvement (Continued)

implemented by the Community Organizations Development Institute (CODI), the poor in 200 Thai cities work in close collaboration with their local governments, universities and NGOs to survey all urban settlements and plan an upgrading process that attempts to uplift all settlements in that city within five years. Once these city-wide plans are finalized, CODI channels the budget, infrastructure subsidies and housing loans directly to communities.

10.4.C. Other Market-Making Measures to Support the Self-Built Housing Sector

Beyond the two programs, there is a set of other measures that allows the government to create an enabling environment and to support self-built housing production, at minimal cost to government. These include the following:

a. **Expand supply of serviced land forallocation to self-built housing at suitable locations** and in close proximity to economically viable areas. Land for affordable housing may originate from multiple sources. Over the immediate and medium term, land reserved under the 20 percent rule (Decree 188) is one source. These could be allocated for formal self-built housing by offering serviced subdivisions (including minimum-size plots) or expandable starter core homes at market rates. Over the long-term, land should be provided through pro-active urbanization of peri-urban lands adjacent to current built-up areas or in proximity to new growth areas, such as industrial zones, and upgrading of underdeveloped central locations (provided that an adequate participatory framework exists), for example, through Land Pooling and Land Readjustment (LPLR) including provisions for land exactions or through Requests for Proposals (RFPs), taking into account the best interest of the public.

b. **Create a framework for community participation in neighborhood development.** A framework that allows for fair and effective negotiation between the key stakeholders can facilitate open discussion for planning of neighborhood upgrading, land sharing, resettlement, and in-situ rebuilding alternatives. In each case, engagement of stakeholders supports a more inclusive project that more likelyreflect the needs and desires of the people who would eventually reside there. The alternative - completed projects designed and built through non-participatory processes – can be costly economically and socially.

c. **Consider shared tenure options for collective management and investment.** Collective tenures, such as condominium-like land and housing certificates of pre-1975 apartment blocks, can support collective construction and management of shared infrastructure (e.g. construction of private alleys), collective financing (group lending and solidarity funds), and can help to control entries and exits to reduce gentrification and to improve subsidy control. Collective tenures can even support collective livelihood initiatives (e.g. by operating a shared production facility for home-based workers), thereby increasing capacity to pay for housing. Lastly, shared tenure also helps compliance with minimum plot sizes, even though individual households may use areas that are smaller than the stipulated minimum.

d. **Eliminate costly one-off fees and time-consuming procedures that push households into informality.** The reduction of fees, together with a simple (possibly online) mechanism of construction and land ownership registration, etc. is particularly important for the self-built housing sector. Many self-providing households are trapped in a vicious cycle of under-investment and informality: they lack access to affordable credit and/or face a high level of investment risk due to informality; while they are forced to remain informal due to under-investment. Thus, online registration, reducing the likelihood of informal fees and administrative charges are considered central to enabling formal development.

e. **Streamline legal and administrative processes and allow for more flexibility, such as inclusive construction permits.** Consider strengthening the graded system of 'deemed-to-satisfy' and regular construction permits (Decree No. 64/2012/ND-CP), depending on the complexity of the works and the qualification of executing personnel.

f. **Revise development standards to better reflect market demand.** By reducing the minimum plot size, for example to 25 m^2 or less, more households will be able to afford formal development. In turn, they will be able to more easily receive a LURC (through debt-financing or at nominal administrative charges), and be able to invest into higher quality housing. Furthermore, staged infrastructure provision reduces the entry cost to formal housing. To reduce the cost of formal subdivisions the public sector may structure a vehicle for collective actions amongst a cluster of households (e.g. in the form of a cooperative with collective tenure) willing to settle on land with initially off-grid infrastructure in exchange for upgrading this infrastructure within 5 years, with adequate incentives and TA.

g. **Provide flanking measures to expand the payment capacity for housing and to reduce household income and expenditure volatility.** International and Vietnamese experiences show that the lowest-income households need income growth and stabilization before they can borrow capital-intensive housing loans. Therefore, for example VUUP lending institutions provide a livelihood loan and technical assistance (e.g. vocational training and business skills) before someone can access a housing loan. It is recommended that these interventions be also brought to scale.

Box 10.10 Participatory Frameworks for Neighborhood Development

A famous reference for a participatory framework is the Million Housing Program in Sri Lanka based on Community Action Planning (Hamdi & Goethert, 1997). The program became possible through national leadership and international cooperation, including the World Bank and leading international academic institutions (MIT, UCL) that provided the technical assistance. The community-driven development framework was anchored in national law and regulations, based on the strategy developed by national policy makers and international experts and an evolution of lessons from initial pilot projects and replication and scale up. The Community Action Planning and variations thereof are used by UN-Habitat, the Cities Alliance, the Asian Coalition for Community Action (ACCA)and the Community Organization Development Institute (CODI) in Thailand.

Table 10.7 Risks Related toSupporting the Self-Built Sector

Risks	Mitigants
Limited capacity for implementation at the local level	This risk can be addressed with program phasing, careful selection of pilot areas and investments in capacity building.
Lack of access to land or finance	This risk can be mitigated through measures outlined in the land and finance chapters, such as land value sharing and land value taxation and access to affordable housing microfinance linked to technical assistance.
Lack of political willingness to support the self-built housing sector	In addition to access to housing microfinance integrated with technical assistance to improve the structural and visual quality of incremental housing, political risk can be addressed through an awareness campaign about the efficiency and affordability of self-built housing, illustrating that the sector is capable of producing formal and affordable housing at a large scale without exhausting public resources and that the core house program eliminated negative attributes commonly associated with low income self-built housing.

10.5. Developer-Built Housing

Engage private sector and maximize their participation in the production of affordable housing to support delivery of a housing at different price points, configurations and tenure options to respond to different housing needs. Create an enabling environment and set of incentives to harness private sector technical capacity and direct their financial resources toward national housing policy goals.

10.5.A. Structure PPPs for Affordable Housing Delivery

Brief. Structure a clear and transparent framework for local governments to engage private sector in affordable housing provision. This framework would outline the procedures (e.g. competitive bidding, contractual agreements), and responsibilities (e.g. affordability levels, profit sharing obligations) for the private sector actor, as well as public counterpart for affordable housing delivery in high priority areas (e.g. industrial zones, rundown public housing sites).

Targets. Industrial zone workers (higher Q1 to lower Q3) and households living in old public housing stocks (higher Q1 to Q2) in the short term.Urban low income households, Q1 through Q3, in the long-term.

Strategic Context. Although the 30 trillion package has reoriented some private investors and developers toward the low-cost and affordable housing market segment, more can still be done to attract and leverage private sector participation. This is particularly the case in areas of high demand where there is low-risk in finding end-users, such as large and high growth cities, as well as industrial zones. In industrial zones, there are large underserved housing needs, where around 90 percent of workers are estimated to live in poor conditions and an overwhelming majority of workers are migrants between the ages of 15 and 29. From a supply-perspective, lower costs of land in peri-urban areas and around industrial zones, coupled with support from government to deliver a product to meets the needs of end customers, make these feasible locations to incentive and leverage private sector participation, as well as to test new models for RFPs, integrating tenure types (such as affordable rental and starter homes), as well as mixed-uses and mixed income, which can also help to cross-subsidize social housing production.

Detailed Description. The MoC would act as convener and national facilitator of PPP projects, starting with industrial worker housing. At a program level, MoC would provide regulatory and technical support, monitoring PPP progress, and evaluate PPP performance upon completion. At a project level, a tri-party agreement would be formed between local government, industrial corporation(s), and private developer.

The below set of activities presents an example of how the program can be implemented:

- MoC identifies a shortlist of local governments with high production of industrial workers, available land, and capacity to participate in PPPs.
- Local government identifies sites near industrial zones, with emphasis on proximity to city centers and social amenities.
- Local government identifies industrial zone owners or large employers with interest in supporting employer-assisted housing.
- Industrial zone owners or large employers can provide a combination of land, project capital, off-take commitment for unsold units after sales, and rental and loan payment management through direct payroll deduction.
- MoC and local governments work together to select a small number of pilot projects with high success potential, for roll out, oversight, assessment and replication.
- Local government conducts an RFP process to select the participating developer.
- Depending on project site and available resources, on top of regulatory provisions on incentives to developers, local government can consider support in streamlining land assembly and administrative.
- National housing finance and subsidy programs on the demand side can also be leveraged for workers' rental or mortgage

payments. Rental housing components of workers' housing would be supported by rental vouchers and supply-side incentives that could include capital subsidies[90].

Due to challenges in drawing developer participation, some local governments have considered allowing the developer to also act as land developer and to sell off a segment of the site for commercial and market-residential use. This model helps cross-subsidize the break-even or low margins of social housing production. Da Nang, in the Dien Nam Dien Ngoc district, is exploring this model.

Allowing for mixed uses and income levels on the same site helps bring diversification to the project site and strategically build toward integrated communities.

It would be advantageous to study successes and lessons learned in existing industrial zone housing projects to guide nationally applicable PPP structures. Notable existing projects include IDICO's Dong Nai industrial housing project and Saigon South Development Corp's industrial workers housing in Tan Thuan export and process zone.

Box 10.11 International Experience in PPPs for Affordable Housing Delivery

i. In Turkey,TOKI, a state-owned enterprise (SOE), is a PPP co-developer of middle income housing. Over the last 15 years, TOKI[91], the National Housing Development Administration, has emerged as the principal driver of housing development and urban renewal in the Republic of Turkey. With consolidated powers including rights to all state-owned land, the power to override local zoning and impose new zoning, and the power of eminent domain, TOKI has established itself as a national developer or co-developer of housing, either directly (by hiring general contractors) or indirectly (via individual PPP joint ventures) whereby the resulting housing is typically a mixture of income levels, tenure options, and price points. As a result of this, TOKI is self-financing and has been responsible for supply of more than 640,000 homes created over the last 15 years[92].

ii. Singapore: Employer-assisted housing and provident funds. A 'provident fund' is a form of mandatory savings, deducted directly from the payroll of formally employed workers, that is used in later life for life needs: education, health care, retirement income, or housing. Singapore's Central Provident fund (CPF) was begun in 1955 under British colonial rule and continues today; due to its large contributions (16% from the employer on top of salary, 20% from the employee), it has accumulated enormous capital sums, which it allocates among four accounts, one of which (the Ordinary Account) can be tapped for housing loans. The housing loans, in turn, are mainly used to buy new or existing flats developed by Singapore's state-owned developer/ regulator, the Housing and Development Board (HDB; http://www.hdb.gov.sg/). In general, pries at both purchase and eventual sale are controlled and managed by the HDB, which acts as a monopsony (universal buyer) across the vast majority of all Singaporean housing. The system works extremely well in Singapore, in part because that is an island city-state which had an uninterrupted many decades of authoritarian-democratic rule coinciding with rising economic prosperity. Other countries often use employer-based provident funds, particularly where there are large employers who face challenges of employee retention and find lending on housing a good means of building employee loyalty[93].

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[90] Refer to Chapter 10.2 on Affordable Rental Housing.

[91] http://www.toki.gov.tr/en/housing-programs.html provides background on some of TOKI's housing programs.

[92] Additional context is provided at http://www.toki.gov.tr/en/background.html.

[93] http://www.miningweekly.com/print-version/benchmark-project-provides-affordable-workforce-housing-2013-10-11 and http://www.bizcommunity.com/Article/196/568/96783.html describe South Arica's workforce housing efforts.

Table 10.8 Risks for PPPs for Affordable Housing Delivery

Risks	Mitigants
Low developer participation	Begin PPPs with successful pilots that have capable developer, proactive local government, and clear end-users.
Lack of site integration with other urban areas	Ensure sites are in proximity to existing urban amenities, such as markets, healthcare or schools. Promote mixed-use and mixed-income projects.
Over-dependency of workers on employers due to housing support	Structure ownership of built projects to belong to developer, local government, or both, and not to the employers.

10.5.B. Explore Introduction of Development Right Incentives

Brief. In the medium- and long-term, link social housing production with commercial real estate sector activities by better facilitating payments in lieu of social housing development and by allowing development incentives to be transferred from social housing producers to commercial developers.

Targets. All social housing production.

Strategic Context. Existing measures around payments in lieu of the social housing requirement, as outlined in Decree 188/2013, provides an alternative to developers who prefer not to participate in social housing production. Local governments will need to establish mechanisms around receipt, management, and distribution of linkage payments. The model of Transferrable Development Rights (TDR) gives developers a means of increasing returns from zoning bonuses, while contributing toward affordable housing production. Meanwhile, TDRs provide affordable housing developers with an additional source of income aside from sales and help draws additional affordable housing developers to the market.

Detailed Description. As the market for affordable housing matures, begin to consider introducing new tools that link commercial sector production with affordable housing funding by providing incentives related to development rights. For example, instead of delivering on Inclusionary Zoning (IZ) promises 'in kind' (i.e. with land contributions or affordable housing actually produced), introduce alternative mechanisms fordevelopers to make contributions, either by making a stipulated cash payment (e.g. per apartment or square meter of IZ land that would otherwise be required) or by buying a TDR from a successful affordable housing developer, as illustrated by the examples in Box 10.12.

Box 10.12 Examples of Development Right Incentives for Social Housing

Linkage payments from commercial developers in lieu of IZ requirements. For example, in a development of 100 flats, a developer would ordinarily be expected to deliver land that would support 20 percent, or 20 flats, at, for easy demonstration, 50 m^2 per flat, or 1,000 m^2 of 'buildable FAR'. A linkage payment of, for example, VND 1 million per m^2, would amount to VND 1 billion of linkage payments, to be paid in installments starting at groundbreaking and ending at completion. The accumulative linkage payments would go toward funding the city's or province's affordable housing development. This would replace the current stipulation under Decree 188/2013 where developers are able to make a contribution equal to the land price framework value of the required 20 percent land contribution in lieu of on-site development. The GoV might also consider limiting linkage payment only to semi-urban and peri-urban sites, while requiring on-site affordable housing delivery for all centrally located projects.

Transferrable development rights (TDRs) to commercial developers from affordable housing production. For demonstration purposes, a TDR model would have the GoV implementing TDRs at a 'three-quarter' (¾) rule: e.g. for each 4 m^2 of affordable housing built by a qualified entity (QE) (and approved as affordable housing by the locality), the QE is issued a 'Transferable Development

Box 10.12 Examples of Development Right Incentives for Social Housing

(Continued)

Right Certificate' for 3 m^2. Now the developer in the preceding commercial 100-flat properties needs 1,000 m^2 of TDR Certificates, so it has to find a QE that has developed at least 1,333 m^2 (1,000 ÷ ¾) of approved affordable housing. The market developer buys that certificate from the QE, for cash, at whatever price they agree upon[94]. The cash flow generated by the sales of TDR by the QE would qualify toward funding the QE's next affordable housing project.

Currently, FAR is at 5.0 for residential development, with an increase of a multiple of 1.5 for affordable housing development. Analysis would be necessary to determine the appropriate cap for TDR benefits purchasable by commercial housing developments. PPCs and DoCs could be consulted as MoC formulates specifications for exemption allowances that are adjusted to each locality, which can be guided by each city's categorization. Complexities will arise in determining the numbers associated with development rights gains and linkage payments. It will be important to involve commercial sector feedback and appraisal in determining quantitative specifications of the programs.

Box 10.13 International Examples of Development Right Incentives

i. Transferable Development Rights (TDRs) in India. In India, particularly the major cities (e.g. Mumbai, Delhi), well-located downtown parcels can become extremely valuable if they are allowed an increase in FAR. The government instituted aTDR scheme in Mumbai where, as described in Box 10.12, there are ¾ contributions. Hence, each 4 m^2 of affordable housing built by suitable developers (usually non-profits) yields a TDR Certificate for 3 m^2 of increased FAR elsewhere in the city. The TDR market in Mumbai has existed for well over a decade, with prices rising and falling with changes in the city's economy and thereal estate development market.

ii. Linkage payments[95], Boston, Massachusetts, USA. Since 2000, under a series of decrees (executive orders[96]) issued by the long-serving mayor of Boston, developers seeking city approval for any scheme were and are required either (a) to include a stipulated percentage of affordable housing (i.e. mandatory IZ) or (b) to 'buy their way out of the requirement' by making a payment equal to so much per IZ apartment not produced; the figure started at $52,000 per apartment in 2000 and is now $200,000 per apartment. Boston's linkage payment model has worked in that (a) it is mandatory, because in practice all zoning in the city of Boston is controlled by a single city agency, the Boston Redevelopment authority (BRA), and (b) throughout the relevant period, the City of Boston has always been an attractive place to develop high-density downtown property (office, hotel, or residential).

iii. Housing Overlay Zones, California, USA. In a Housing Overlay Zone (HOZ), a locality defines a target area (an aging downtown, say, or along the path of a proposed new public transportation network), in which new 'voluntary' zoning/ development/ density rules are available, at the property owner's election; thus the existing zoning remains in place but the owner (or a developer) may elect the HOZ optional zoning for any property that also meets affordability targets (e.g. 30% affordable instead of 20%). HOZs often include greater FAR, higher height limits, fast-track permitting, and other exemptions or incentives. HOZs have become popular in California as they enable a progressive city council/ mayor to work with the business community on strategically targeted higher-density growth, without requiring rezoning or changes in the city's zoning laws.

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[94] In Mumbai, the market price for TDRs fluctuates with supply and demand.

[95] Some other US cities have also used similar linkage payments or impact fees.

[96] For the series of executive orders, refer to: http://www.bostonredevelopmentauthority.org/getattachment/449e3e98-f724-4bbf-a43d-c7c04389ab15.

Table 10.9 Risks Related toTransfer Development Rights

Risks	Mitigants
Poor management of payments in lieu of housing development	Establish specialized entities or mechanisms to collect, management, and allocate funds from payments in lieu of housing development. Start with a small number of large and capable cities, and scale up.
Enforcement of zoning and density regulations is not yet sufficient to support TDR	The market for TDRs cannot be formed until urban zoning and density management systems are strongly in place. The finance sector will also need to be strong, so that market players can be familiar and comfortable with trading credits.

10.5.C. Other Market-Making Measures to Support Developer-Built Housing

a. **Track and manage data on social housing land contributions at the national level.** It is recommended that the central government monitor local government enforcement and new developments' compliance of land contributions to social housing, also known as inclusionary zoning (IZ). Central government can match data on development and construction permits with data on IZ parcels contributed. Data tracked can include parcel location, size, development status, and capacity for affordable housing development. Once a year, central government might consider conducting assessments of new residential projects across major provinces, checking for IZ compliance, and publishing results as a policy management tool or on the public domain. MoC's ICE could run such a management database in conjunction with ICE's current responsibility for collecting and managing data on new local development projects. The combination of affordable housing development opportunities on IZ sites and public awareness of compliance will support local governments to become better enforcers.

b. **Consider adjusting the terminology of 'social housing *(nha o xa hoi)*' to 'affordable housing *(nha o gia hop ly)*' to better reflect the policy focus.** Social housing produced by private developers would benefit from being rebranded as government-supported housing, as a means to reduce negative perceptions related to older forms of deteriorated and poor quality public housing stock.

c. **Provide detailed guidelines and best practices around HOA's.** Condominium and co-operative ownership structures are becoming more common in Vietnam's cities. Though basic laws exist to govern the legal shape of condo or co-op management entities, there is a need to further guide the governance structure and responsibilities of HOAs in more detail or provide support for the development of professional property management companies. Effective HOAs will be important to the long-term maintenance, and hence value, of buildings

d. **Streamline private sector participation in redevelopment or upgrading of old public housing stocks.** Within the context of the 2015 Housing Law, MoC is focusing on models to attract developers to participate in the upgrading of old public housing blocks. These are often rundown condominiums and collective housing, known as khu tap the (KTTs), and located in prime inner city areas, particularly in Hanoi. Local governments can extend the PPP approach to affordable housing delivery with special directives for redevelopment of old condominiums and apartment stocks offering incentives (such as higher FAR, zone changes for mixed use etc.) and facilitating organization and engagement of current residents. These would need to be considered on a case by case basis, but with transparent and competitive bidding and procurement procedures.

Box 10.14 Urban Renewal Areas and Redevelopment Authorities (RDAs) in the U.S.

Starting in the 1950s, older urban cores in American cities experienced blight, as higher-end households moved to the newly expanding suburbs, leaving the urban core to be re-occupied by rural-to-urban immigrants of much lower income. Many of these neighborhoods saw disinvestment, so the cities created urban renewal authorities (URAs) that became development arms of city government, with the broad power to acquire parcels via eminent domain (expropriation) or foreclosure of real estate tax liens[97], to rezone or upzone land, and to convey the property to private developers for revitalization efforts. Several such authorities persist today in cities such as Boston and San Francisco[98], and have become the critical urban-planning nexus for city government. Additionally, many jurisdictions have adopted a model of redevelopment areas (RDAs) that may use tax increment financing (TIF); in these models, the municipality designates an area for redevelopment, then commits to use a stipulated portion of the increase in real estate taxes in that area derived from rising property values as a dedicated source of subsidy for affordable housing, as one example. The rising revenue stream can in turn be financed in the capital markets, so that the municipality has up-front cash to fund its portion of urban renewal infrastructure that attracts employers and jobs. The model has been widely used throughout the US.

10.6. Housing Sector Governance

Consolidate and strengthen government actors and delivery systems for improved coordination and more effective implementation of housing policy, programs and initiatives. Invest in building out the foundations of effective housing sector governance, including real estate information systems, a common targeting framework, as well as monitoring and evaluation standards for measuring the performance of public housing initiatives.

10.6.A. Institutional Strengthening

Brief. Focus on creating capable government actors, by working towards strengthening an overarching body to act as a housing coordinating body in preparation of policy and programs, channeling of subsidies and support to local governments to help them become effective executing agents of national housing policy. This body need not be a new institution, but for ease of understanding, has been referred to in this report as the National Housing Authority (NHA).

Target. Central government ministries, directorates and agencies, as well as local governments.

Strategic Context. Although there have been efforts to improve coordination in the housing sector, with the establishment of the Central Steering Committee for Housing and Real Estate Policy, there are still not concrete tools or procedures for real collaboration between central government agencies. Nor are there clear guidelines and channels for providing technical assistance to support and empower local governments in preparation and implementation of projects locally. As a result, many public housing programs are fragmented and have not achieved expected results in local-level implementation. Structuring a central body at the national level that acts as the hub for all housing related initiatives and focuses on interfacing with and building up the capacity of local governments will help GoV to become more effective in management of the sector and implementation of interventions.

97 Under US law, all real property is assessed annual real estate taxes, which are set by each municipality as a percentage of property fair market values. The cost of these taxes is a lien against the property title. If the owner does not pay the real estate tax arrearage, then the locality may foreclose and seize the property (land). These are called ‘in rem foreclosures’. This is apowerful tool necessary for the recapture of blighted or abandoned parcels or properties.

98 Boston’s entity is http://www.bostonredevelopmentauthority.org/ and San Francisco’s is http://www.sfocii.org/. Many others exist, some better, some worse.

Detailed Description. In order to consolidate and strengthen institutions and delivery systems, it is recommended to: (i) develop an over-arching National Housing Authority (NHA) to carry out sector coordination and oversight; and (ii) focus on building capacity of local governments in at least five of Vietnam's high-growth cities, to support them to become effective executing agents of national housing initiatives.

The National Housing Authority would act as an umbrella coordinating body across ministries and city governments to oversee housing sector interventions. It could be anchored under a lead ministry, determined by GoV, such as Ministry of Construction, or by establishing a new executive body at a higher level of government, or by expanding the mandate and capacity of the existing Central Steering Committee.

Such an agency could have the following specific set of functions:

- Coordinate and convene public agencies
- Carry out policy analysis and development
- Channel subsidies and support to local governments
- Monitor and evaluate programs
- Develop common targeting systems
- Monitor housing sector through analysis of real estate market information data

The NHA would also engage and support local governments toward preparation and execution of the Flagship Initiatives. Local governments play an important role in carrying out local needs assessments, identifying target households, facilitating land provision, administering subsidies, engaging private sector and reporting back results for program monitoring. By creating common delivery systems, clear performance indicators and platforms for training and peer-to-peer sharing, central government can support and incentivize local governments to become more effective in affordable housing provision.

Figure 10.3 Proposed Structure for Housing Sector Governance

Table 10.10 Risks Related toInstitutional Reforms

Risks	Mitigants
Legal hurdles to establish the NHA	There will need to be flexibility in how the NHA, as a functional body, is set up. Reaching a common agreement first among key ministries (MoC, MPI, MoF, SBV) to work towards the establishment of the NHA would be important, and then agreeing on its functions, legal standing and a plan to build its capacities and responsibilities over time.
Lack of interest of local governments	Early engagement of local governments in 5 of the highest-growth cities will be important, in order to ensure their buy-in and allow them to shape the national housing initiatives in line with their needs and interest.

Box 10.15 International Examples of Housing Governance Structures

i. Egypt: Social Housing Fund. With a post-revolution focus on affordable housing, Egypt established the Social Housing Fund (SHF) within the Ministry of Housing, Utilities and Urban Development in 2014. The SHF was created as a consolidation of several entities that come under theMinistry to transform the housing sector, improve the housing conditions of the underserved low income population (below 40th percentile of the income distribution) and fulfill the Government's commitment to deliver one million homes for low income households. SHF is charged with designing housing laws and regulations, social housing programs, providing oversight for their implementation in consultation with relevant housing entities, and managing financial resources

Box 10.15: International Examples of Housing Governance Structures

(Continued)

for social housing. A series of national-level policy reforms serve as a catalyst for SHF's programs and policies, including streamlined land and property registration systems, an improved real estate tax law, building code and mortgage development framework.

ii. Morocco. Al Omrane. Morocco consolidated its housing sector in 2003, after insecurity in bidonvilles (slums) prompted King Hassan to establish a National Urban Strategy. Under the broad direction of Morocco's Ministry of Housing, the NUS specifically sought to prevent or alleviate the proliferation and expansion of informal settlements through new affordable housing production, mainly via PPPs. In addition to the MoH, Morocco in 2004 established Al Omrane Group[99], as a consolidation of over a dozen public construction companies, to act as the main government entity to implement housingprograms and coordinate a number of government entities. With 14 subsidiaries regionally, Al Omrane implements four main programs: the Social Housing Program (via PPPs), Villes sans Bidonvilles ('Cities without Slums') for slum upgrading. A program for very low income housing (Logements a Faibles Valeur Immobiliere Totale, FVIT), and the development of new towns.

10.6.B. Building Blocks of Housing Sector Governance

Brief. Develop a program to build out the foundations of housing sector governance, including continuing efforts to put in place a comprehensive management information system for the housing sector, setting up M&E standards for better accounting of public spending on housing, and developing a common affordability and targeting framework for housing programs.

Target. All market actors, including government entities, private sector and households.

Strategic Context. Limited market information makes it difficult for government in Vietnam to formulate effective housing interventions to support access to housing for thelow income, as well as for private sector and households to investigate and evaluate market trends. More reliable information supports all housing sector stakeholders to make better informed and evidence-based decisions. As a result, new efficiencies will be introduced to help lower costs for housing and allow government to make more targeted and efficient policies to support the low income and maintain stability in the real estate market.

Detailed Description. MoC has been charged to develop and manage the housing and real estate information system. A new decree has been drafted to define the scope, the principles and the role of key stakeholders in contributing to its establishment and maintenance. This would cover market data as well as account for public spending in housing to allow better monitoring of the real estate sector's movements and development of more effective housing policies and program.

To put in place this Housing Management Information System (HMIS), as a depository of reliable, up-to-date, publically-available housing and real estate-related data, GoV will need to build out procedures to collect and update data from local governments, all relevant ministries, as well as private sector actors to monitor market dynamics. Data may include basic geo-referenced information on the location and characteristics of slums and squatter settlements, supply data on residential housing markets, rental housing prices and housing finance information. Collection of this information may also require introducing new surveys or requesting further questions be incorporated into the national living standards survey or the census.

Information can be collected and reported out using online systems, which have both

[99] http://www.alomrane.ma/ ; the site's text is principally in French.

government and public-access portals, to maximize transparency and remove market failures associated with lack of information. As such, the HMIS can also serve as a platform for consumer education and private sector engagement.

Secondly, development of an income or consumption-based targeting system is recommended to improve the efficiency of public spending and to ensure that subsidies do reach the most vulnerable and needy households. This would require carrying out comprehensive analysis of incomes and affordability levels based on GSO VHLSS and census surveys, and then putting in place easy-to-use and simple standards for setting up local qualification criteria, assessing beneficiary incomes and confirming eligibility across public programs.

Table 10.11 Risks Related to the Housing Sector Building Blocks

Risks	Mitigants
Availability and quality of housing data	Initially, the management information system should start with a few key market indicators that are simply to collect and report, and then build out to more difficult measures over time.
Mistargeting	To mitigate mistargeting, a clear system for assessing income, based on consumption levels and state of existing housing, can be used, as well as shared online systems, so that local governments in different regions can share information on potential beneficiaries (e.g. to assess whether they have property registered in another jurisdiction).

Box 10.16 Thailand's Real Estate Information Center (REIC)

Established in 2004 as a resolution by the Thai Cabinet, the REIC is a part of the Government Housing Bank though directed by its independent Board of Directors. The REIC missions are to (i) become the Real Estate Industry's consultant center and knowledge base, (ii) develop housing and real estate research, analysis and forecasting capabilities, (iii) build tools and indicators that reliably forecast the Thai property market's demand, supply and price levels and (iv) disseminate relevant real estate information to both the public and private sectors. The REIC is funded primarily by the Thai Ministry of Finance (through the Government Housing Bank), although over the last several years, around10 percent of its budget has come from fees derived from services it provides to the private sector.

The REIC collects data from three key sources:

- Government Ministries (Department of Land, Bank of Thailand - the Central Bank, Ministry of Public Works, Ministry of Urban Planning, Bangkok Metro Public Company Ltd., National Statistics Office, National Housing Development Board, Legal Execution Department for foreclosure data);
- Primary housing starts and housing completion data from key developers;
- Quarterly consumer survey conducted across the 77 provinces outsourced by external research agencies.

The REIC publishes a real estate annual report that includes data relating to home sales, housing starts, land allotment permits, building permits, housing transfers, housing completions, housing mortgages, a housing developer sentiment index and a condominium price index.

10.6.C. Other Measures to Strengthen Housing Sector Governance

a. **Develop a monitoring and evaluation system of housing subsidies.** One important mandate of the National Housing Authority as a national-level coordinating body would be to ensure the efficiency and compliance of housing subsidy programs. Given the economic and social importance of housing, as well as the complexity of the housing system, policy decisions should be informed by an information system showing their broad implications and potential outcomes, and by the evaluation of the actual results of on-going programs.

Such a system should include:
- The impact of the housing sector on the economy at large, in terms of employment creation and new activity.
- The measurement of the fiscal impact of the sector: (i) the cost of all forms of subsidies, direct or indirect, national and local should be measured; (ii) the tax revenues generated by housing, and in particular, those eventually resulting from public assistance programs should be estimated to provide a clear picture of the real net cost of these programs to government
- The assessment of the social and economic efficiency of subsidy programs: actual individual targeting, measurement of the allocation of the support through income segments, cost/benefit analysis of various programs.

b. **Conduct a 'regulatory and administrative audit' and introduce reforms to streamline procedures and increase flexibility.** Launch a study that engages local governments, households and private sector to identify the key blockages in affordable housing delivery. A regulatory audit would identify the costs associated with regulations on housing construction and consumption, with the aim to minimize these and enhance affordability for lower income segments. The result would be a suite of reforms to simplify administrative steps, reduce time delays and costs, where possible.

c. **Create a platform for local governments for peer-to-peer knowledge sharing.** GoV could create a collaborative environment where local governments can share best practices and lessons around urban development and affordable housing development. This can be achieved through conferences, workshops, online platforms, twinning arrangements, among other measures, to allow local governments to learn from one another's experiences and replicate project models that have been successful.

d. **Support the development of a network of real estate professional.** Develop a system for qualification of real estate professionals and investors, who are fast-tracked as qualified to implement public housing programs, and can act as a consultative committee for input on government's minimum construction standards and design of programs and delivery systems. Strengtheningsuch a network will promote the development a set of capable market actors committed to affordable housing, will simplify measures to engage and socialize new programs with private sector and promote high quality and innovation in the design and construction of affordable housing. Working with the existing real estate and builder's associations could be an effective starting point.

Chapter 11

Strategic Implementation Plan

Policy Areas	Immediate Term (0-12 months)	Short Term (1-2 years)	Medium Term (3-5 years)
1. Housing Finance	**Deepen capacity for housing financelending:** - Enhance lending standards and practices and develop risk management tools. - Conduct market assessment of specialized housing finance products for the different underserved segments. Restructure the 30T package to improve cost effectiveness by shifting from an interest rate to a buy-down subsidy.	**Improve access to housing finance:** - Develop, test and launch specialized housing finance products. Consider savings schemes and subsidy interventions, as needed, for the different products. Explore options to set up a long-term funding facility or mortgage refinance facility.	**Strengthen institutional framework:** - Develop and implement a M&E system for housing subsidies. - Build monitoring tools and prudential regulations for sector stability. - Develop consumer financial literacy and protection program.
2. Land Supply	**Strengthen land management and administration:** - Assess options for reforming land taxation and structure of fees. - Review and simplify legal framework and administrative procedures. - Expand "one-stop-shop" model to streamline land-related services. - Explore creation of an over-arching coordination framework for land-related functions.	**Develop new instruments to increase land supply:** - Align LPF with market land prices. - Design clear frameworks for Requests for Proposals (RFPs). - Strengthen enforcement and systems for implementing the 20 percent inclusionary zoning requirement. - Develop proposals for integrated land development strategies, such as pilots for LPLR, land sharing, or land value capture instruments.	**Scale up land value capture and land redevelopment models:** - Raise rates of land taxation. - Support pilot LPLR and/or land sharing projects in select cities, with frameworks for national replication. - Contribute to review of master plans for selected cities to integrate land use and infrastructure projects.
3. Rental Housing	**Strengthen the Market for Rental Housing:** - Carry out assessment of regulations and revise standards for landlord-tenant rights.	**Rental Housing Capital Subsidy Program:** - Design and pilot supply-side capital subsidy program. - Expand capacity-building	**Demand-Side Rental Voucher Program:** - Detailed design and piloting of the demand-side rental assistance program.

Policy Areas	Immediate Term (0-12 months)	Short Term (1-2 years)	Medium Term (3-5 years)
	- Design TA and capacity-building program for rental housing providers. - Create a set of guidelines for development of financial products for rental housing. Carry out detailed market assessment of rental housing needs in select cities and industrial zones.	program with a focus on Q1-Q2 and small landlords. - Set up systems to integrate rental housing indicators into the HMIS - Consider creation of a credit-line to support primary lenders to develop long-term financial products for rental housing.	- Revise regulation and technical assistance program to respond to sector needs and priorities. - Scale capital subsidy program to new geographic regions of Vietnam.
4. Self-built Housing	**Create enabling environment for self-built housing:** - Plan and prepare pilot programs for Starter Home program for expandable core units. - Adjust development standards to support self-built housing (e.g. citizen participation, integrated planning, plot sizes, construction permits). - Conduct assessment of under-serviced neighborhoods for urban upgrading.	**Provide direct support for self-built housing:** - Pilot Starter Home program with core housing at select localities. - Continue to develop the housing microfinance sector - Refine, replicate and scale neighborhood development and home improvement.	**Expand support and develop based on integrated urban strategies:** - Continue to expand core housing delivery and home improvement initiatives. - Introduce new mechanisms to access land for self-built housing projects.
5. Developer-built Housing	**Strengthen existing incentives for developer-built affordable housing:** - Enforce local implementation of inclusionary zoning and track land contributions. - Simplify verification of eligibility for housing incentive programs. - Preliminary design of structure of PPPs for affordable housing delivery.	**Introduce new support for developer-built housing:** - Carry out pilots for PPPs for affordable housing in industrial zones. - Design guidelines for Home-Owners' Associations practices. - Explore new incentives around redevelopment of old public housing stocks.	**Explore development right incentives:** - Roll out PPPs and redevelopment of old public housing stock in partnership with commercial sector. - Develop new mechanisms for development right incentives, including payments in lieu of land contributions, linkage payments and transferable development rights.
6. Housing Sector Governance	**Build a national coordinating body and strategy:** - Agree upon the responsibilities of an overarching housing body. - Agree on the integrated Roadmap for housing sector reform. - Continue efforts to develop the Housing and Real Estate Information Systems.	**Streamline governance and delivery systems:** - Conduct a regulatory audit and reform any over lapping or unsuitable legal standards. - Create channels to support local government-led action, with resources, TA and knowledge sharing of best practice.	**Continue to enhance public sector performance:** - Strengthen online M&E systems for measuring performance of housing programs. - Set up a platform for LG knowledge sharing and peer-to-peer exchange.

PART III

Annexes

Annex

A Reference Data for Affordability Analyses

Figure A.1 Urban Population by Province (thousand persons)

Year	Red River Delta	Northern midlands and mountain areas	North Central and Central coastal areas	Central Highlands	South East	Mekong River Delta	Urban Vietnam Total	Hà Nội (ex.)	HCMC (ex.)
2005	4,917	1,649	4,095	1,305	6,923	3,443	22,332	2,046	5,145
2006	5,103	1,684	4,213	1,338	7,164	3,552	23,057	2,161	5,316
2007	5,319	1,722	4,345	1,374	7,440	3,674	23,877	2,307	5,510
2008	5,544	1,761	4,481	1,411	7,726	3,801	24,726	2,462	5,711
2009	5,778	1,801	4,621	1,449	8,023	3,932	25,605	2,627	5,920
2010	6,023	1,842	4,766	1,487	8,331	4,067	26,516	2,804	6,136
2011	6,131	1,921	4,893	1,511	9,060	4,204	27,719	2,858	6,248
2012	6,339	1,948	5,008	1,540	9,207	4,227	28,269	2,907	6,310
2013	6,558	1,974	5,074	1,570	9,411	4,287	28,875	2,951	6,450
2014	6,757	2,034	5,228	1,617	9,696	4,417	29,749	3,041	6,645
2015	6,974	2,080	5,352	1,650	10,079	4,516	30,649	3,136	6,794
2016	7,199	2,128	5,480	1,684	10,477	4,618	31,577	3,235	6,947
2017	7,431	2,177	5,611	1,719	10,891	4,722	32,532	3,336	7,103
2018	7,670	2,226	5,745	1,754	11,322	4,828	33,517	3,441	7,262
2019	7,917	2,277	5,882	1,790	11,769	4,936	34,531	3,549	7,425
2020	8,172	2,329	6,022	1,827	12,234	5,047	35,576	3,661	7,592

Source: Statistical Yearbook 2013: Table 23, pp. 72ff.
Note: Source years are 2005, 2010, 2011 and 2012, while the other years are extrapolated based on observed trends. The growth rate used for the forecast is the average annual change of the 2005 to 2012 and 2010 to 2012 periods, in order to reflect the decline in the growth rate. These projections are identical to the medium variant projection by GSO.

Figure A.2 Urban Household Size by Area

Year	Red River Delta	Northern midlands and mountain areas	North Central and Central coastal areas	Central Highlands	South East	Mekong River Delta	Urban Vietnam Total	Hà Nội (ex.)	HCMC (ex.)
2002	-	-	-	-	-	-	4.27	-	-
2012	-	-	-	-	-	-	3.83	-	-
2009	3.7	3.5	4.0	4.0	4.1	4.2	3.96	3.7	4.1
2010	3.6	3.4	4.0	4.0	4.1	4.2	3.91	3.6	4.1
2011	3.6	3.4	3.9	3.9	4.0	4.1	3.87	3.6	4.0
2012	3.6	3.3	3.9	3.9	4.0	4.1	3.83	3.6	4.0
2013	3.5	3.3	3.8	3.8	3.9	4.0	3.79	3.5	3.9
2014	3.5	3.3	3.8	3.8	3.9	4.0	3.75	3.5	3.9
2015	3.4	3.2	3.7	3.7	3.8	3.9	3.71	3.4	3.8
2016	3.4	3.2	3.7	3.7	3.8	3.9	3.67	3.4	3.8
2017	3.4	3.2	3.7	3.7	3.8	3.9	3.63	3.4	3.8
2018	3.3	3.1	3.6	3.6	3.7	3.8	3.59	3.3	3.7
2019	3.3	3.1	3.6	3.6	3.7	3.8	3.55	3.3	3.7
2020	3.3	3.1	3.5	3.5	3.6	3.7	3.51	3.3	3.6

Source: General Statistics Office, 2002 and 2012. Other years have been calculated based on interpolation and projection, using the 2002 to 2012 rate of annual change (-1.09 percent). Regional estimates are based on earlier data from GSO.

Figure A.3 Qualitative Housing Deficit by Area

Year	Red River Delta	Northern midlands and mountain areas	North Central and Central coastal areas	Central Highlands	South East	Mekong River Delta	Urban Vietnam Total	Hà Nội (ex.)	HCMC (ex.)
Less than 6sqm	3.0	1.2	2.9	2.3	3.0	8.1	**4.4**	4.6	8.7
No water tap	18.3	41.9	32.0	63.0	33.9	23.8	**29.0**	8.1	15.9
No flush toilet	6.6	31.7	16.1	31.4	30.0	5.6	**14.7**	1.3	2.8
No water or sanitation	20.2	49.9	37.8	69.5	44.9	27.1	**34.0**	8.5	18.1
No solid pier	0.1	6.6	1.6	5.4	17.0	1.0	**3.9**	0.0	0.7
No solid roof	8.0	29.9	42.9	81.6	89.5	77.3	**53.3**	6.8	74.0
No solid outer wall	0.1	9.5	0.8	1.3	11.5	0.7	**2.9**	0.0	0.4
No solid pier or roof or wall	8.1	34.8	43.5	83.0	90.0	77.3	**54.0**	6.8	74.0
Pre-1975	5.5	2.2	7.4	3.0	6.9	11.2	**7.4**	7.5	14.1
Any combination	32.1	61.7	68.8	94.9	93.8	82.8	**69.1**	23.4	79.4

Units: Percentages as a share of total households in each area.
Source: 2012 VHLSS long form.

Figure A.4 Low-End Commercial Housing

Type/Company	Area (m^2)	Location	m^2 price VND M	Unit price VND M	Source of information
Star City	50	Hanoi inner fringe	35	1750	DoC Hanoi end 2013
Apartment in 15 floor tower block	60	HCM Large new project	23	1380	Linan Joint Stock Company
Viet Hung	63.5	Hanoi inner fringe Long Bien	24	1524	DoC Hanoi end 2013
CC Nang Huong secondary market	72	Hanoi 583 Nang Hurong St	26	1872	DoC Hanoi end 2013
CC	65	Hanoi 335 Cau Giay	32	2080	DoC Hanoi end 2013
Thaloga-econ	91	250 Minh Khai Hanoi inner city	15	1365	DoC Hanoi end 2013/ internet
Petroland	68	District 2, HCM	17.9	1220	http://nhadat24h.net/ 12-Mar-14
Nam Do	75	609 Truong Dinh Hanoi	22	1650	Broker 12 March 2014
Eco Park/	92	Xuan Quan Hanoi	20	1840	WB site visit 9 March 2014
Nam Long w/ IFC equity		HMC		420 to 1050	IFC meeting 12 March 2014

Examples of smallest size, lowest-priced condominium apartments. Prices range from VND 420 – 2,080 million; typical above VND 1,500 million, as of March 2014.
Source: Based on the Qualitative Research on Social Housing: Housing Market for Living and for Rent for Low-Income People in Hai Phong, Ho Chi Minh City and Can Tho, 2014.

Figure A.5 Low-End Social Housing

Type/Company	Area (m^2)	Location	m^2 price VND M	Unit price VND M	Source of information
apartment	36-60	Hanoi	13-Aug	288 (lowest)	MoC Housing Director
apartment	36-60	HCM	12-Jul	252 (lowest)	
apartment	36-60	Danang	7-May	180 (lowest)	
apartment	36-60	n.a.	Monthly rent:	20,000-40,000	
apartment tower	35-40	Bing Dok 12 km south of HMC center	10	340-400	Lay Tang Company
apartment tower workers	60-70	Bing Dok 12 km south of HMC center	13.9	800-1000	
apartment block	36	Bao Cao Tom Tat, HCM 2nd floor	6	216	IDICO-ORBIZ (prices not approved)
	36	5th floor	3.76	135	
	60	ground floor w/ shop	8.1	486	
apartment tower	66	Sai Dong New Urban Area, east of Hanoi (lowest floor)	12.7 excl. VAT	800	Co3 Hadico
	74		12.7	900	
apartment in low-rise	36	Dang Xall new urban area, east of Hanoi	8.6 incl. VAT	310	Developer company
	69			593	

Examples of Lowest End Social Housing Unit Prices as of March 2014
Price range: VND 135 – 1,000M; typical approx. VND 400M
Source: Based on the Qualitative Research on Social Housing: Housing Market for Living and for Rent for Low-Income People in Hai Phong, Ho Chi Minh City and Can Tho, 2014.

Figure A.6 Low-End Tube Housing in Hanoi

District	Location	Built Area (m2)	m2 Price (VND M)	Unit Price (VND M)
Bac Tu Liem	North inner fringe hot area	33	14.9	490
Bac Tu Liem	North inner fringe hot area	48	14.2	680
Bac Tu Liem	North inner fringe hot area	46	13.4	615
Bac Tu Liem	North inner fringe hot area	80	11.5	915
Bac Tu Liem	North inner fringe hot area	42.7	15.3	650
Thanh Xuan	West inner fringe	43	17.5	750
Thanh Xuan	West inner fringe	60	18.4	1,100
Ha Dong	West -south inner fringe hot area	40	9.5	380
Ha Dong	West -south inner fringe hot area	32.5	15	490
Long Bien	East north fringe across river expensive area	41	18	740
Cau Giay	West north fringe hot area	36	15	540
Cau Giay	West north fringe hot area	36	15	540
Cau Giay	West north fringe hot area	46	15.5	710
Cau Giay	West north fringe hot area	42	14.3	600
Hoai Duc	West fringe former rural, active	44	10.5	460
Hoai Duc	West fringe former rural, active	32	10	320

Examples of Small Tube Housing Units for Sale in Hanoi (May 2014):
Price range: VND 320 – 1,100M; typical approx. VND 500M
Source: Based on the Qualitative Research on Social Housing: Housing Market for Living and for Rent for Low-Income People in Hai Phong, Ho Chi Minh City and Can Tho, 2014.

Figure A.7 Low-End Tube Housing in HCMC

District	Location	Built Area (m2)	m2 Price (VND M)	Unit Price (VND M)
Binh Chanh	West far fringe	45	2.7	120
Binh Chanh	West far fringe	50	2.8	140
Thu Duc	East fringe with industry	54	12.8	688
Thu Duc	East fringe with industry	38	9.7	368
Quan 7		40	12	480
Quan 12	North far fringe rural	42.6	9.3	393
Quan 12		42	9.2	386
Tan Phu	West south far fringe	42	9.5	400
Tan Phu	West south far fringe	49	16.3	799

Examples of Small Tube Housing Units for Sale in HCMC, as of May 2014.
Price range: VND 120 – 799M; typical approx. VND 400M.
Source: Based on the Qualitative Research on Social Housing: Housing Market for Living and for Rent for Low-Income People in Hai Phong, Ho Chi Minh City and Can Tho, 2014.

Figure A.8 Lowest-Cost Self-Built Housing

Item	m2 Price (VND M)	Unit Price (VND M)
Cheapest land on smaller roads and alleyways (semi-formal?)	2.5 to 5	
Construction cost (semi-formal?)	2.5 to 4	
Normative unit type 2: single story		238
Plot of 50sqm	2.5	125
Single-story unit of 45sqm	2.5	113
Normative unit type 1: three stories		177
1/3 of 1 plot of 50sqm	2.5	42
3 units of 45sqm in G+2 tube house	3	135
Normative unit type 2a: single story, small		113
1 plot of 25sqm	2.5	50
Single-story unit of 20sqm	2.5	63
Normative unit type 1a: three stories, small		81
1/3 of 1 plot of 25sqm	2.5	21
3 units of 20sqm in G+2 tube house	3	60

Self-production of modest housing units, typical approx.: VND 80 to 240 million.
Based on Self-Build Housing Survey in six low-income neighborhoods of Ho Chi Minh, Can Tho, and Haiphong (08-09/2014).
Source: Based on the Qualitative Research on Social Housing: Housing Market for Living and for Rent for Low-Income People in Hai Phong, Ho Chi Minh City and Can Tho, 2014.

Figure A.9 Existing Rent levels in Various Cities in Vietnam

City/Ward	Hai Phong (VND)		Ho Chi Minh City (VND)		Can Tho (VND)	
	May Chai	Vinh Niem	Hiep Thanh	Binh Hung Hoa A	An Khanh	Hung Loi
6-9m^2 Room	600,000-800,000	500,000 - 800,000	±1,000,000	±1,000,000	800,000 1,000,000	800,000 1,000,000
12-15 m^2 room without mezzanine	800,000-1,000,000	700,000-1,000,000	1,000,000-1,200,000	1,200,000-1,500,000	800,000-1,200,000	800,000-1,200,000
12-15 m^2 Room with mezzanine (4-6 m^2)	N/A	N/A	1,200,000-2,000,000	1,800,000-2,000,000	1,000,000 1,500,000	1,000,000 1,500,000
20-25 m^2 Room	N/A	N/A	1,500,000-2,000,000	1,800.000-2,500.000	1,200,000-1,500,000	1,200,000-1,500,000
Individual house (owner is away) for rent (18 m^2)	1,200,000-1,500,000	1,500,000	3,000,000 4,000,000	3,000,000 5,000,000	3,000,000 5,000,000	1,500,000 5,000,000

Source: Based on the Qualitative Research on Social Housing: Housing Market for Living and for Rent for Low-Income People in Hai Phong, Ho Chi Minh City and Can Tho, 2014.

Annex

B

Overview of Public Housing Programs

The next section provides a brief overview of the main public housing programs that have been executed by the government of Vietnam since the Doi Moi period. Refer to Table B.1 for a summary of planned and recorded budget allocation and production numbers for each of these programs.

1. Housing support for meritorious people

The housing program for meritorious people was started in 1992. A target group of 340,341 households have qualified for this program, either through contribution to the revolution prior to 1945 or high national merit, such as leading academics or musicians. The qualification criteria and selection of beneficiaries are determined by the Ministry of Labor, Invalids and Social Affairs (MOLISA). The MoC provides program oversight and recommendations for budget allocation, which is approved by the MoF.

Funding is allocated from both central and local government budgets. The Provincial People's Committee (PPC) then purchases units, both condominiums and houses, and allocates to qualified households on a gift basis. Grants can also be provided for capital improvements of a beneficiary's existing home. Households are given full title and thereby are free to resell and pass on as inheritance as desired. The program is carried out on an ad hoc basis without clear conditions on the quality and price of units purchased and granted to eligible households, making the model economically inefficient.

Over 72,000 units have been delivered up until 2014, with VND 2.4 trillion of central government resources. As the number of qualified recipients of this program is largely fixed, the government has stated its aims to complete the remaining commitment to beneficiaries by 2020, although it is unclear the strategy in place to achieve this.

2. Housing support for people living in flooding areas of Mekong Delta

This program targets households in rural areas of the Mekong Delta region affected by flooding. The program has been overseen by the MoC and implemented by five PPCs in the Mekong River Delta region. Components of the program include infrastructure investment by PPCs to prevent flooding risks, including construction dykes, and a preferential credit program to households for repairs, upgrades and new constructions to reduce vulnerability to flooding.

Until 2014, 40,536 units, or 71.7%, of the planned 56,520 units have been delivered. Local governments have committed VND 231 billion and central government has contributed VND 905 billion, in addition to VND 1.087 trillion of preferential credit and VND 164 billion of commercial credit delivered through state-owned banks, primarily through the Vietnam Bank of Social Policy (VBSP).

Most units have been improved in-situ, although there are examples of land readjustment where relocation is required. In these cases, land allocation has been agreed locally and facilitated by the people's committees (PCs) at the district and commune level. This program has largely been successful, with low default rates on housing loans and consistent progress.

The program is still in implementation, and the government aims to complete it by 2020, with an additional 16,000 households targeted.

3. Housing support for people living in flooding areas in Central Region

This program for flood-affected households in the Central Region is still in the planning phase and aims to replicate the success of the Mekong Delta program. The planned budget allocation is VND 543 billion from central budget, VND 6 billion from local budgets and VND 608 billion of preferential credit to reach 40,500 households. Implementation is likely to adapt from that of the Mekong project, which combined local government investment in infrastructure with preferential credit to households for home improvement and reconstruction provided by VBSP.

4. Housing support for poor households in rural areas

This program supports extremely low-income households in rural areas without existing homes and has been in operation since 1994. The program was revised in 2008 with Decree No. 167. Until 2010, 260,587, or 46 percent, of the planned 496,025 households have received support, mainly through the provision of very low-cost credit for home improvement and incremental construction administered by VBSP. The budget spent on this program so far amounts to VND 5.798 trillion, and another VND 12.712 trillion is planned in the coming 5 years.

Microfinance loans are provided to households at a highly subsidized flat interest rate of 3% that is well below prevailing MFI rates (see further details in Chapter 5). Furthermore, VBSP relies heavily on the Women's Union, the Farmers Union, and the Youth Union for all customer interface and operational aspects - from sourcing customers and lending appraisal, to loan disbursement and collection. The loan has had very low default rates, helped by a 5 year grace period and no penalty on advance payment. In addition, a small number of the most vulnerable households, such as poor farmers without family support, may be provided land and the gift of a basic unit, of VND 20 - 40 million per unit, built and allocated by the Communal People's Committee.

In 2014 the Prime Minister decided to revise the orientation of this program to be focused on sustainable reduction of poverty, and there is a target of reaching an additional 510,700 households from 2015-2019.

5. Social housing for students

Launched in 2009 through Decree No. 65, the student housing program promotes state investment in dormitories for students[100]. The initial goal was to provide accommodation to meet around 60 percent of total students' needs.

Student housing projects were primarily state-funded through the issuance of government bonds[101], although there were contributions from the annual budget of the Ministry of Education and Training (MET), as well as local budgets coming from land use, levies and land lease. Once authorized by the Prime Minister and PPCs, student institutions are directly allocated budget for construction, according to MoC pre-approved designs. Decree No. 65 also provides incentives for investors using non-state capital for student dormitories, although these are too limited to stimulate sizeable supply[102].

Since 2009, MoC has authorized 95 social housing projects for students, amounting to a total investment of VND19.696 trillion and a

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[100] This includes students of public and private universities, colleges, professional secondary schools and vocational colleges and intermediate schools.

[101] MPI and MoF initially planned around VND 8 trillion in government bonds to implement this program.

[102] These include waivers on land use fees, VAT and reductions in CIT. In exchange, investors for dormitory projects are required to organize post-investment management, operation, and maintenance, or entrust a housing organization to carry out these services.

target of 330,000 units[103]. As of January 2015, there were 75 projects completed, largely in areas outside cities, delivering units to 145,000 students. Another 20 projects are still in the pipeline or under construction.

Housing is primarily organized into multi-person dorms in 5-6 storey walk-ups, which must have a minimum of 4 m^2 per student[104]. For state-funded projects, rents are set solely to offset management, operation and maintenance, which are determined by universities in coordination with PPCs. Rents did not account for cost of capital and depreciation of property value. For non-state funded projects, the law states that profit is capped at 10 percent and the capital recovery period would cover a minimum of 20 years. In reality, there are few non-state-funded student housing projects, which only occur when land and long-term finance is provided by the city or the university themselves.

The program has played an important role in student housing provision but has failed to reach targets, mainly as it has been difficult for institutions in urban areas to identify land for projects. There also does not appear to be a lot of oversight once budget is delivered to institutions, such as reporting of results.

6. Social housing for workers in industrial zones

A program for social housing for workers in industrial zones was launched in 2009, pursuant to Decree No. 66. This decree required investors in industrial zones to plan areas for social services and housing for their workers. The goal was initially to provide accommodation to around 50 percent of the 2.2 million industrial park workers by 2015.

Investors could opt to build units themselves or transfer land with infrastructure to developers to build houses for lease to workers. Land was intended to be set-aside in industrial zones, where compensation is paid by the PPCs to former land-owners, and through the 20 percent social housing requirement for commercial or new urban development projects, as specified through Decree No. 188/2013. Local budget would be made available for compensation to land-owners, site clearance and construction of infrastructure for industrial workers housing. The minimum living area for industrial workers was set at 5 m^2/person and rent levels must be approved by PPCs on the principle that state expenses are not included, that the investor profit does not exceed 10 percent, and that the capital recovery period is set at a minimum of 20 years. Additional incentives were provided to investors regarding land use fees and taxes[105].

It was intended that investors for industrial worker housing could benefit from long-term credit at preferential rates provided through the Local Housing Development Funds. However, HCMC is one of the very few local governments with an operational LHDF able to finance this type of housing. Other projects received financing from the Vietnam Development Bank (VDB), which offered loans funded through the issuance of government-guaranteed bonds directly to investors at long terms and fixed interest rates (e.g. 15 years and 9.65 percent p.a.). Initially VDB prepared 44 large projects that were approved by MoC. The first VND 391 billion loan was made to the Vietnam Glass and Ceramics for Construction (Viglacera) to build 1000 social housing units in Hanoi's Gia Lam District.

There were VND 1.129 trillion of local budget spending and VND 24.425 trillion of investors'

[103] When demand exceeds supply, managers of dormitories must assign leases using the following priority: students from other provinces, poor students, students with good performance and first-year students. Students with financial difficulties may take loans from the State to pay rents under the Prime Minister's Decision No. 157/2007, on credit for students.

[104] Student housing may also be built at 1.5 times the regulated construction density and land use ratio.

[105] Investors are exempt from land use levies and land rents, from VAT, as well as enterprise income tax for 4 years, counting from the time of generating taxable incomes, a 50% reduction enterprise income tax for 9 subsequent years and enjoyment of a 10% enterprise income tax rate for the whole project life.

funding planned for 2009-2015, though there are no records on actual spending. Although 6,039,898m2 of social housing for 960,264 workers in industrial zones was set as the target, there have only been 123 projects approved as of 2014, of which 64 were completed (20,277 units) and 59 projects are still being implemented (66,753 units).

Interest in this program has waned for several reasons. Many of the units provided for industrial workers consist of shared rooms with up to 10 tenants, which is not the preferred option for those workers with families or others that opt to rent rooms from households in the surrounding areas and commute. Furthermore, investors often do not have much interest in managing housing units. Finally, the process and requirements that come with negotiating the local government support is not transparent and usually carried out on an ad hoc basis, which makes it difficult for investors to plan.

7. Social housing for low-income people in urban areas

Initially launched in 2009 (via Decree No. 67), investors of projects classified as social housing[106] became entitled to land, tax and credit benefits[107]. In 2013, this support was supplemented by preferential credit provided through the VND 30 trillion package. This package is administered by the central bank, SBV, for a limited 3-year period, and was initially delivered through five partner banks[108] that offer mortgages to eligible purchasers at preferential rates (e.g. max tenure of 15 years, max. ceiling of 6 percent fixed-rate interest and LTV of 70-80 percent), as well as to developers of social housing projects.

Initial targets for this program included 7,106,272 m^2 of social housing or 166,390 units, and budget allocation included the VND 30 trillion of preferential credit, as well as VND 1.31 trillion of local budget for infrastructure provision and VND 27.24 trillion of equity provided by investors. Although slow to disburse, there have been 129 projects of social housing approved by MoC through this program as of December 2014, which include 38 completed projects or 19,686 units and 91 projects for 55,830 units in implementation.

A detailed assessment of this Program is provided in Chapter 5.

8. Sale of state-owned houses to current tenants

This program was launched in accordance with Decree No. 61 in 1994. State-owned houses were sold at preferential prices, much below market rate, to current tenants. Of the 362,500 state-owned units, 286,300 units, or 86.3%, have been successfully privatized. Of the remaining units, some have been left in a legal stalemate. For example, some units are occupied by more than one family, leading to conflicts as to who is eligible to purchase the unit or how subdivision could be done.

Since privatization, many units in this program have suffered from poor maintenance and have become dilapidated. Low-income families with granted title often under-invested in repairs due to insufficient resources. Furthermore, some of the units that were privatized were in Soviet style apartment blocks. Households here were given condominium title, yet no property management system was put in place, resulting in no entity responsible for maintenance of common areas or the overall building. Many of these buildings are in an extreme state of disrepair as a result. Informal incremental expansion has been prevalent, and strategic redevelopment has become a political priority stated in the 2020 housing strategy. Throughout Vietnam, there is an estimated 3 million m^2 of

[106] Social housing aims at the following target groups: public and government officials and employees, industrial workers, students, employees of socio-political organizations, military, and low-income households.

[107] As with the student and industrial worker programs, social housing projects for low-income in urban areas benefit from land use fee exemptions, as well as VAT and corporate tax reductions.

[108] To be expanded to 10 additional commercial banks.

old apartment complexes built before 1991 with more than 100,000 families living in them.

9. Official housing

The final public housing program is for housing leased to senior public and military officials, at provincial and national levels of government. There are an estimated 315,280 m^2 of this type of housing, including 49 villas and 3,377 apartments. Buildings are mainly owned and managed by central government as well as a small number of PPCs. There is no data related to new building of official houses, but it is expected that new production is limited and most stock is carried over and reallocated after changes of post.

9. Housing Finance Project

Started in 2003 and financially closed in 2012, the Housing Finance Project, supported by ADB, consisted of three components. Component A consisted of mortgage lending to urban low-income households (ULIHs) by participating commercial institutions (PFIs) such as Dong A Bank and Mekong Housing Bank. Component B issued housing microfinance for urban poor households (UPHs) through community based financial institutions (CFIs) such as Cooperative Bank. Component C sought to establish a housing refinance facility (HFF) to become in due course the apex institution in helping to facilitate the healthy development of the housing finance sector.

The program had a slow start and this can be attributed to program design failure such as tight eligibility criteria and strict administrative procedures but also due to market conditions such as scarcity in supply of housing products for the urban poor, to lack of real estate information to guide program implementation, and to low lender participation. Changes were made to the program eligibility criteria with positive results. Loan caps and income requirements for components A and B were annually adjusted to reflect economic changes, and urban centers received higher caps to account for high costs.

From a management perspective, on a monthly and quarterly basis PFI's are obligated to report on outstanding loans and NPLs, program funding usage and plans for further use, administrative files sent to borrowers, and information on subsidiaries and branches. PFI's are also expected to conduct quarterly on-site assessment of a sample number of borrowers to ensure funds are used for the stated housing intent. Annual program auditing occurs to ensure PFI performance.

As far as Component C, a housing refinance facility entity is still in the process of being evaluated by the SBV. Component C did establish a team for the HFF as governed by SBV, and technical staff received extensive training on policy issues, use of hedging instruments, and mortgage insurance. Efforts were made to develop a preliminary housing demand database for ULIHs lending and to create and implement a project performance monitoring system that would track lending data from Components A and B. SBV's experience managing lending Components A and B and establishing an HFF technical team under Component C can be utilized in continued policy design efforts for low income housing finance.

10. Vietnam Urban Upgrading Project's (VUUP) Housing Upgrade Financing Component

As part of the VUUP program, there is a housing upgrade financing component where a line of credit of USD 15 million was provided to MFIs and community networks to deliver home improvement to low-income households in HCMC, Hai Phong, Can Tho and Nam Dinh. The loan facility reached 90,000 households under this lending program. Low-income borrowers are able to borrower a max loan amount of VND 15 million with a maximum loan tenure of 5 years.

The origination, management and collection of the loans benefited from the institutions' existing lending and servicing framework, which includes working closely with ward PC's and community groups to assess loan history, educate consumers, and ensure loan repayment. Community financial institutions acting as lenders also formed community savings groups, five people each, as a required part of borrowing that creates social collateral to lower the risk of the loans.

VUUP's home improvement loans are among the first non-income-generating loan products to be administered by many of the MFI's and WU network, particularly in the urban area. Lenders' strong community based network and supportof Ward PC's contributed to healthy collection rates. The Women Union (Women's Economic Development) WEDS Fund in HCM reported that home improvement performance was good with a NPL of 0.01 percent.

To expand lending activity and increase loan amounts, community lending institutions will need to further tailor and build up their lending framework.

11. Tan Hoa Lo Gom Resettlement Project

Tan Hoa Lo Gom (THLG) is an urban resettlement project in Binh Hung Hoa Ward, HCMC, where 72 families were moved from informal tenure and temporarily built housing into three 3-story apartment blocks to enable the city to upgrade housing, infrastructure, and waterway embankment. Originally planned to take three years, the program was extended to eight years due to additional time needed for negotiations and construction work. Funded by Belgian Technical Cooperation through an ODA loan, the project was a joint effort between a multi-sector blend of entities including local government, Women's Union, the Hunger Eradication & Poverty Reduction Fund (HEPRF), and social workers. From a pre-resettlement perspective, the project was relatively successful through the phases of community needs assessment and interest building, mediation, program structuring, and implementation.

The project's main challenges occurred after residents began living in the resettlement apartment blocks. Geographical relocation and formal vertical living caused many households to lose their informal jobs as peddlers and home-based workers. The savings groups were hardly maintained, and residents were not effectively educated about microfinance. Loss in employment and failed savings schemes led to poor repayment rates for the housing loans issued by HEPRF.

12. Asian Coalition for Community Action's Housing Upgrade Project

ACCA's housing upgrade efforts occur hand in hand with its efforts in small community infrastructure upgrading through the Cities Development Fund (CDF's), as monitored by the Association of Cities Vietnam. The process starts first with community savings to ensure commitment and a voice from the community members. The CDF's were provided with seed funding from ACCA and together with community savings provide intra-community lending for housing upgrading. The housing upgrade program targets small communities in urban area, with the most notable pilot effort in Vinh City.

With ACCA's help, 29 families in Cua Nam ward proposed to redevelop their run down collective workers housing in response to the city's redevelopment and resettlement plans. ACCA provided housing loans, community training for housing planning and construction, and liaising between the community and local government authorities. The CDF's also funded housing loans of 0% interest over 10 years, of 150,000 VND/month. The pilot yielded 2-story row houses on 45 m2 plots with widened lanes and drainage. Upon project completion, Vinh city made plans to apply the same self-upgrading model to 135 communities across the city. Throughout the process, the city acted as the linchpin in creating the necessary environment for the community to connect with architects and financing, with provision of eased administrative procedures associated with land use rights and zoning and construction guidelines.

Figure B.1 Budget Allocation for Public Housing Programs since 1995

Program	Year	FUNDING SOURCES (Billion VND)							Outputs
		Central Budget	Local Budget	Preferential Credit	Commercial Credit	Investors' Fund	Other Fund	Total	(HH – Households)
Program on housing support for meritorious people	Planned 1996-2015	9,300	1,500					10,800	340,341 HH
	Implemented in 2013-2014	2,400	No data						72,153 HH
Program on housing support for people living in flooding areas in Mekong delta	Planned 2009-2014	905	231	1,087	164			2,387	56,520 HH
	Implemented up to 2014	No data							40,536 HH 71.70%
Program on housing support for people living in flooding areas in the Central Region	Planned 2014-2016	543	6	608				1,157	40,500 HH
Program on housing support for poor households in rural area	Planned up to 2010						500	5,798	496,025 HH
	Implemented in 2009-2010	2,554	400	2,344				12,712	260,587 HH 46.00%
	Planned 2011-2015	4,724	328	7,660					510.700 HH
	Implemented up to 2014								
Social housing for students	Planned 2009-2015	38,000						38,000	330,000 places for students
	Implemented up to 2014	19,696						19,696	330000 places for students
Social housing for workers in industrial zones	Planned 2009-2015		1,129			24,425		25,554	6,039,898 m^2 960,264 people
	Implemented up to 2014		No data			No data		No data	87,030 units
Social housing for low-income people in urban areas	Planned 2009-2015		1,310	30,000		27,240		28,550	7,106,272 m^2 166,390 units
	Implemented up to 2014		No data	4,727		No data			75,516 units
Sale of State own houses to current tenants in accordance with the Decree 61/CP dated 05 July, 1994	Planned 1994-2010	The sale of State own houses for current tenants is made by preferential prices (prices are much lower than market prices), but it is difficult to calculate the State's support in monetary							362.500 units
	Implemented in 1994-2010								286.300 units 86.30%
Official housing	Implemented in 2005-2014	No data related to new building of official houses. There are only total constructed areas and units which include old houses and newly constructed houses.							315,280 m^2 include 49 villas & 6,377 apt.

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