POLICY RECOMMENDATIONS TO DEVELOP REAL ESTATE INVESTMENT TRUSTS (REITs) IN VIET NAM

By

Khuat Thi Kieu Van

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

MASTER OF PUBLIC POLICY

2010

POLICY RECOMMENDATIONS TO DEVELOP REAL ESTATE INVESTMENT TRUSTS (REITs) IN VIET NAM

By

Khuat Thi Kieu Van

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

MASTER OF PUBLIC POLICY

2010

Professor Man Cho

POLICY RECOMMENDATIONS TO DEVELOP
REAL ESTATE INVESTMENT TRUSTS (REITs) IN VIET NAM

By

Khuat Thi Kieu Van

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

MASTER OF PUBLIC POLICY

Committee in charge:

11/23/2010

Professor Man CHO, Supervisor

Professor Buyngho OH

Professor Seong Ho CHO

Approval as of November, 2010

ABSTRACT

POLICY RECOMMENDATIONS TO DEVELOP REAL ESTATE INVESTMENT TRUSTS (REITs) IN VIET NAM

By

Khuat Thi Kieu Van

Real estate investment trusts (REITs) have been in existence in the world for more than thirty years now. In such a short history, it has been applied in most of the countries with developed financial system. In recent ten years, more and more developing countries, especially in Asia started to adopt REIT structure and become successful with REITs because REITs can bring about many benefits for investors, businesses and the economy. Among those countries are Japan, Korea, Singapore, Hong Kong, Malaysia, Thailand, and now China and India. Viet Nam is also an emerging economy in the region and is on its way to develop the market-economy. One of the targets of the country is to manage and develop the real estate industry for the sustainable development. Establishing REITs is a good way to release difficult situation of the industry (such as depending on banking system, lacking funds for real estate projects…). By studying the basic knowledge of REITs, referring to some Asian countries' experience in developing REITs, and analyzing the current situation of Viet Nam's real estate market, the author tries to propose policy recommendations to develop REITs in Viet Nam. The thesis will be good reference for those who want to study about REITs and other related conditions to establish REITs in Viet Nam.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

KEY TO ABBREVIATIONS

1. REIT : Real Estate Investment Trust
2. UPREIT : Umbrella Partnership REIT
3. OP : Operating Partnership
4. LP : Limited Partnership
5. NAREIT : National Association of Real Estate Investment Trusts
6. EPRA : European Public Real Estate Association
7. APREA : Asian Public Real Estate Association
8. J-REIT : Japanese REIT
9. K-REIT : Korean REIT
10. CR-REIT : Corporate Restructuring REIT
11. KRW : Korean Won
12. MAS : Monetary Authority of Singapore
13. S-REIT : Singaporean REIT
14. LPT : Listed Property Trust
15. H-REIT : Hong Kong’s REIT
16. VND : Viet Nam Dong
17. SSC : The State Securities Commission of Viet Nam
18. HOSE : Ho Chi Minh City Stock Exchange
19. HNX : Ha Noi Stock Exchange
20. IPO : Initial Public Offering

INTRODUCTION

A. **Statement of problems and rational**:

Real estate plays a very important role in the economy of every country. It is the national stock of buildings, the land on which they are built, and all vacant land. Therefore, the value of all real estate makes up the single largest component of the national wealth. The real estate market operation thus contributes to the operation of the economy as a whole. Since the renovation policy has been applied in Viet Nam in 1986, with the shift from the centralized economy to the market-oriented economy, the management of real estate market has also changed significantly. Especially during recent years, the real estate market has achieved certain level of development thanks to the economic stable growth and new policies from the Government.

However, the real estate market in Viet Nam is still in its early stage of development compared with other countries in the region because there still exits imbalances in supply and demand, potential risks and less chance for investors to participate and lack of financing for businesses. The imbalance of supply-demand leads to high rents, market fever and increasing price in every sectors while potential risks for investor are causes by the lacking of legal regulations, development strategy for the market and other problems relating to investment in land. In this period of development, the real estate industry is more focusing on creating more properties by building and developing rather than buying, selling, managing or renting activities.

For most of the real estate businesses, they are facing with problems in mobilizing long-term and large pool of funds. Firstly, because they are too dependent on the banking system through bank loans which are usually short and medium term and limited while the demand is always increasing. This tie will cause many difficulties for them when the banking system starts to reduce their loans or increase lending interest rates. Secondly, the capital market has not been a reliable financial source for the real estate sector due to the lack of suitable vehicles, such as securitized products. Therefore, two questions have been raised:

(1) Which investment vehicles can be used to mobilize long-term funds from potential sources in the society for real estate businesses?

(2) Which products can help the general public to take part in real estate market to get high return, diversification, liquidity and other investment benefits?

The answers to these two questions may help solve the problems that Viet Nam's real estate businesses are facing. For that reason, the author tries to find the answer in the REIT structure. REITs markets have been developed more than 30 years in the world. In such a short history, it has been applied in most of countries with developed financial system. In the recent 10 years, more and more developing countries are successful with REITs markets. This investment vehicle was created in 1960 to provide investors with an opportunity to invest in real estate and, at the same time, to enjoy the same benefits provide to shareholders in investment trusts. Before REITs were created, investors could purchase real properties only from the property market, not from the stock market. However, with the creation of REITs, it is possible to trade properties in the stock market. Therefore, the REIT concept made it possible and convenient for small investors to invest in real estate.

B. **Objectives:**

In that context, the objectives of this thesis include:

(1) To study the REITs with their characteristics, different types and their benefits to investors and to the economy;

(2) To study the experience of some countries in Asia which have adopted REIT

structure, including Japan, South Korea, Singapore, Hong Kong, Malaysia, and Thailand;

(3) To analyze the current situation of the real estate market and the possibility to establish REITs in Viet Nam; and

(4) To propose some policy recommendations to develop REITs market in Viet Nam.

C. **Structure:**

To achieve these objectives, the thesis is organized into four parts:

Part I serves as the introduction to REITs which covers the definition of REITs, their requirements, different types of REITs and more importantly, their benefits for investors and for the economy. This part provides readers with the general picture of REITs in the financial world.

Part II mentions about some other Asian countries' experience in developing REITs (Japan, South Korea, Hong Kong, Singapore, Malaysia and Thailand). These countries are more developed than Viet Nam in terms of financial services but still share similar market conditions when they first launched REITs. In each case, the background information, recent developments and performance of REIT market is looked into.

Upon reaching **Part III**, the current situation of the real estate in Viet Nam will be analyzed. In this part, the author selects the two big cities of Viet Nam to have a better look into the real estate market, and then maps out the major financial sources for real estate businesses in Viet Nam. This part also points out the difficulties that businesses and the industry in general are currently facing.

Finally, from the analysis of Part II and III, some conditions for establishing REITs in Viet Nam are presented in **Part IV**. With those conditions, the author also proposes some recommendations. These recommendations are related to some key steps to take in developing a REIT market in Viet Nam, including the very first step to deal with the legal framework, namely the special Law on REITs. Then regulations on taxation, securitization, REIT stock listing requirements and so on are also need to be issued. Other steps are to stabilize and better manage the real estate market and develop the financial market are also proposed. To take these steps, determination from the Government, cooperation between relating ministries and agencies are very important preconditions.

D. **Research methods:**

The major methods of the thesis include researching, analyzing, comparing and feasibility studying. It starts with the researches of theory and empirical evidences of REITs, then research the real development experience in some countries in the world. After the theoretical and empirical research, analyzing method is also applied in parts about each type of REITs and the benefits that they could bring about. Comparing method is used when referring to other countries' experience in developing REITs. Finally, feasibility studying method is used in the last part about the application of REITs in case of Viet Nam. Moreover, in this thesis, related data are also collected and presented mostly in Part I and II. These data are secondary and available in various sources, such as books, research papers, reports, journals and websites.

The author is quite ambitious to include many contents in this thesis. However, REIT concept together with other sophisticated products of the developed financial market is quite new in Viet Nam. Moreover, there have been limited sources of reference about REITs in Viet Nam, the author would also hope this document to serve as reference source for students and interested individuals in their researching about REITs.

I. BACKGROUNDS ON REITS:

A. Definition:

1. What are real estate investment trusts (REITs)?

At the time of its formation, a traditional real estate investment trust (REIT) was essentially *a closed-end fund* created exclusively for holding real properties, mortgage-related assets, or both. This investment vehicle was created by the U.S Congress in 1960 for the purpose of providing investors with an opportunity to invest in real properties and, at the same time, to enjoy the same benefits provided for shareholders in investment trusts (Chan *et al*, 2003, p.3). Before the creation of REIT, investors could purchase real properties only from the property market, not from the stock market. However, with the creation of REIT, it is possible to trade properties in the stock market because they are now in the form of corporate or trust. In other words, general investors can buy REIT stocks from the stock market with the intention of buying a pool of real properties and/or mortgage. Therefore, the REIT concept made it possible and convenient for small investors to invest in real estate (ibid., p.3).

Some of the modern REITs can also be viewed as *operating companies*, rather than as the pure closed-end funds, like traditional REITs. Given this, it is fair to say that most REITs, both traditional and modern, can be viewed *as pools of properties (and/or mortgages) traded in the stock market* (ibid., p.4). Nowadays, it is very common in books and literature about REITs the definition that *REITs are publicly- traded companies which invest in and manage portfolio of commercial properties or mortgage loans*[1](Mullaney, 1998). In this way, a REIT stock is similar to any other stock that represents ownership in an operating business. But a REIT has two unique features: its primary business is managing groups of income-producing properties and it must distribute most of its profits as dividend.

---

[1] John A. Mullaney, REITs, *Building profits with Real Estate Investment Trusts*, John Wiley & Son, Inc., 1998

Today, there are REITs that invest in just about every type of commercial property in existence: apartment buildings, regional malls, neighborhood shopping centers, office complexes, industrial parks, health care facilities, hotels, motels, self-storage properties, factory outlet centers, and, even golf courses. These REITs invest on an all cash basis, with modest borrowings, or through an exchange of stock. They usually buy properties directly or through joint ventures with other investors. Some REITs develop properties; some just buy existing real estate.

2. REITs requirements:

REITs are usually set up as corporations or business trusts. In recent years, most REITs have been established as corporations because the laws governing corporations are generally more uniform and established than those governing trusts. The corporate REITs issue stock, while the business trusts issue shares of beneficial interest (Mullaney, 1998, p.3).

The key difference between REITs and other public companies is in *how they are taxed*. In three simple words: they are not. Therefore, most of the profits made by REITs are distributed to shareholders, who then pay tax bill. Other public companies are taxed on their profits. If they pay out any dividends to shareholders, then the shareholders are responsible for paying taxes on these dividends. That results in double taxation. In other words, the income tax burden for REITs is substantially shifted to the shareholder level, REITs will only pay income tax on any of undistributed net income they retain. One more feature is that REITs cannot pass losses through to their investors.

Why were REITs given this preferential tax treatment? The reason is to put real estate investment trusts on the same footing, at least tax wise, with mutual funds Like REITs, mutual funds profit flows through directly to their shareholders (ibid, p.4). However, just as there are certain rules mutual funds must follow to qualify for this favored tax treatment, REITs must also meet certain requirements:

(1) *Nature of assets*: At least 75% of their total assets must be invested in real estate, shares of other REITs, government securities, or cash. Also, a REIT may not own non-government securities in an amount greater than 25% of the value of REIT assets (ibid, p.4);

(2) *Source of income*: At least 75% of the company's income is derived from real estate or real estate-related investment. A REIT must actually satisfy two income tests. First, a minimum of 75% of their annual gross income must come from real property rents, mortgage interest, gains on the sale of property or shares of other trusts, and other real estate sources; Second, at least 95% of their annual gross income must be from the income items from the preceding 75% test plus other passive income sources such as dividends and any type of interest (Imperial, 2002). Moreover, no more than 30% of their annual income can come from the sale of properties held less than 4 years. (This precludes a REIT from engaging in the sale of real estate as part of its business or trade; such as a homebuilder developing and selling single family homes);

(3) *Distribution of income*: They must pay out a minimum of 90% of their net income to their shareholders every year. This is defined as net taxable income.

(4) *Organizational structure*: The REIT must be organized as a business trust of corporation. More specifically, it must be managed by one or more trustees who have fiduciary duty over the management of the organization. The organization must have evidence of beneficial shares of ownership that are transferable by certificates. The beneficial ownership must be held by a minimum of 100 shareholders with no more than 5 of these owning more than a combined 50% of the trust's outstanding shares (the "5/50 rule") (Imperial, 2002, p.24).

Failure to meet any of these requirements would either subject a REIT to disqualification for special tax-exempt treatment purposes or disqualify a portion of its earnings from tax-exempt treatment at corporate level. These are common requirements, however, in each country, these criteria may vary.

B. Types of REITs:

According to different criteria, REITs are categorized in different types. However, there are 3 popular criteria that we can base on; they are *asset classes, organizational structure and ownership structure*:

1. Asset classes: There are two basic categories of REITs: equity REITs and mortgage REITs, and the mixture of these 2, hybrid REITs.

a. Equity REIT *is a publicly traded company that, as its principal business, buys, manages, renovates, maintains, and occasionally sells real properties. It also acquires properties and frequently develops new properties when the economies are favorable* (Block, 2002, p.13). Most equity REITs focus their investment on one type of property (such as office buildings), and some limit their investment further to a particular region of the country (Mullaney, 1998). Nowadays, most REITs are equity REITs.

Some examples of equity REITs include: *Residential REITs* (specializes in apartment buildings and/ or other residential properties leased to individuals), *Retail REITs* (specializes in the field of retailing malls and shopping centers), *Office and Industrial REITs, Health care REITs, Self storage REITs; Hotels and resort REITs*.

The benefits of investing in equity REITs vary. Some equity trusts provide a high current dividend return, but have limited growth potential. REITs that enter into certain types of leases called triple net leases fall into this category. Other equity REITs provide a lower current return, but have greater appreciation potential. Especially, the share prices of equity REITs will fluctuate with changing interest rates; however, because equity REITs have the ability to increase their cash flow by increasing property rents, they are less susceptible to interest risk (Mullaney, 1998, p.6).

b. Mortgage REIT *is a REIT that makes and holds loans and other obligations that are secured by real estate collateral* (Block, 2002). Mortgage REITs deal in investment and ownership of property mortgages. These REITs usually loan money for mortgages to owners of real estate, or purchase existing mortgages or mortgage-backed securities. Their revenues are generated primarily by the interest that they earn on the mortgage loans[2].

In the past, mortgage REITs invested in loans on existing properties, as well as construction and development loans. Most of today's mortgage REITs, however, loan money only to the owners of existing properties Mortgage REITs usually generate a higher dividend yield than equity REITs because they have limited potential to increase in value. However, if you invest in a mortgage REIT, you invest primarily to receive a high current dividend and not for any appreciation potential. Normally, the only way the stock price of a mortgage REIT increases in value if the interest rates decline. Alternatively, if interest rates increase, the share price declines. This implies the primary risk of investing in mortgage REITs, namely interest rate risk (Mullaney, 1998, p.5). To offset this risk, most mortgage REITs today invest a substantial percentage of their funds in variable rate mortgages because the interest rate on variable rate mortgages can be reset periodically to adjust to changing market interest rates, thereby reducing interest rate risk.

c. Hybrid REIT: The third type of REITs, called a hybrid, invest in both mortgage loans as well as real property. Hybrid REITs have less growth potential than equity REITs but greater appreciation potential than mortgage REITs (Mullaney, 1998, p.6). A hybrid

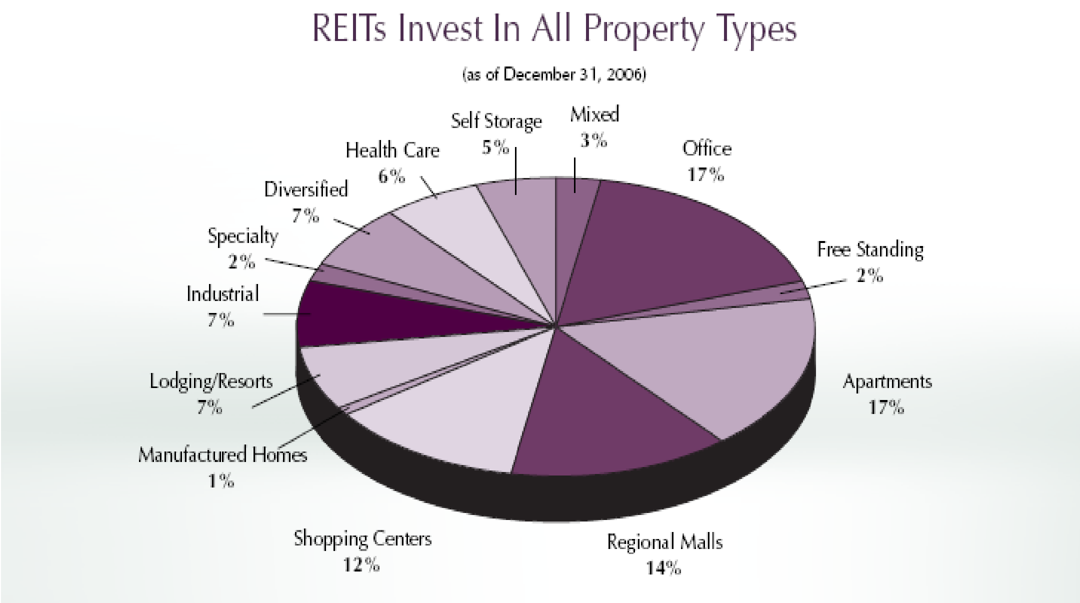
[2] Retrieved on August 23, 2010 from http://www.investopedia.com/terms/r/reit.asp

REIT generates income from rent and capital gains, like an equity REIT, as well as interest, like a mortgage REIT [3].

In general, hybrid REITs combine both strategies to diversify real estate investment alternatives. When interest rates are high then equity REITs will suffer because their capital will be more expensive. Because it increases the expected return of equity or cost of equity must also increase. In addition, many equity REITs use the debt markets to fund some portion of their investments. Finally, the payout requirement placed on REITs force REITs to constantly raise debt and equity for future investments.

This paper will focus on equity REITs rather than mortgage REITs or hybrid REITs.

Figure 1: REIT investment allocation



Source: www.Investinreit.com

2. Organizational structure:

a. Internally-advised and externally-advised REITs: As a corporate organizational form, REITs fall into 2 competing property management structures, *internally-advised and externally-advised*.

[3] Retrieved on August 23, 2010 from http://www.investorwords.com/5609/hybrid_REIT.html

As originally envisioned, REITs used to be passive investment vehicles like mutual funds. Hence, REITs had to retain 'advisors' who carried out functions similar to mutual fund portfolio managers. The advisors usually selected properties and executed investment strategies for the REIT. However, different from stock or bond portfolios, real estate assets require active management to lease, operate and finance the properties. Therefore, REITs also engaged `property managers' who were responsible for the operation of the property (Ambrose, Linneman, 2001).

b. UPREITs and DOWNREITs:

(1) UPREITs (Umbrella Partnership REITs): The UPREIT concept was first implemented by creative investment bankers. Its purpose was to enable long-established real estate operating companies to bring properties they already own under the umbrella of a REIT structure, without actually having to sell the properties to the REIT, since by such a sale the existing owners would incur significant capital gain taxes. Therefore, the UPREIT structure was created in order to avoid recognition of taxable income on the transfer of appreciated property to a REIT. UPREITs have accounted for nearly two third of all newly formed REITs since 1992. Today, more than half of the largest REITs are organized as UPREITs (Chilcote, 2002).

In general, an UPREIT is a REIT that owns an operating partnership and serves as the general partner of an operating partnership. Most of the assets of the REIT are held through the ownership of the operating partnership. Under this structure, an UPREIT format basically provides 2 forms of ownership, in that an equity holder of the firm can be either a shareholder of the REIT or a unit holder of the operating partnership. Both REIT stock holders and partnership unit holders will own the same underlying portfolio or properties (Chan *et al*, 2003, p.48).

Even though the underlying properties of the partnership units and REIT stocks are the same, there are important differences between the 2 types of ownership. A limited partner of the operating partnership is not entitled to the same rights and protection that a REIT shareholder enjoys. The tax treatment is not the same, and the units of the operating partnership are not the same as the shares of the REITs. Given this, the welfare of partnership unit holders is in the hands of REIT. How to align the interests of the REIT shareholders and those of the partnership unit holders becomes an important issue. This is especially true when there are many different types of partners under one REIT (ibid, p.49).

Figure 2: Typical UPREIT structure

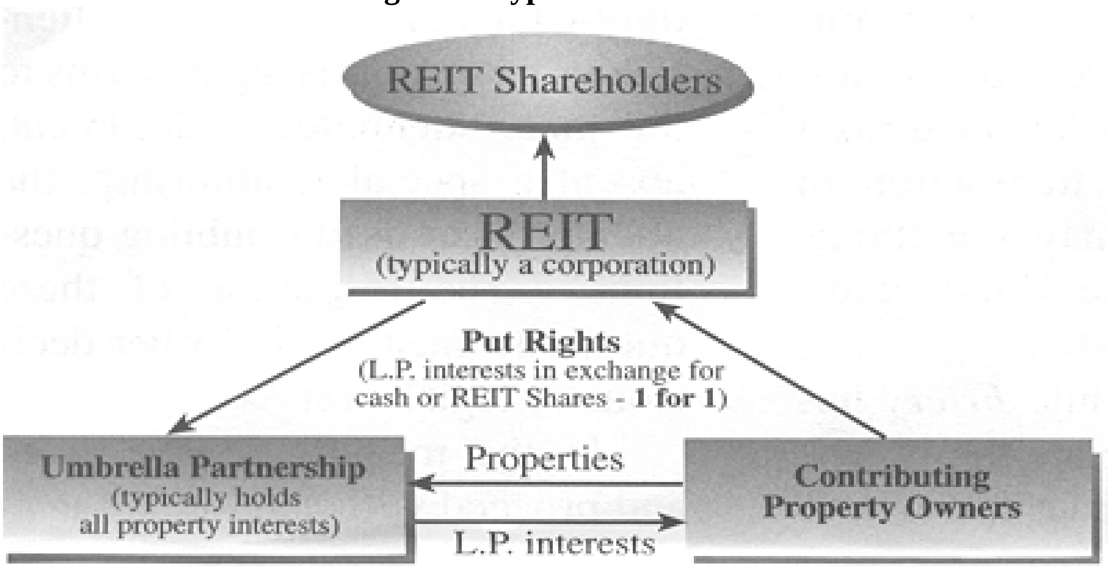
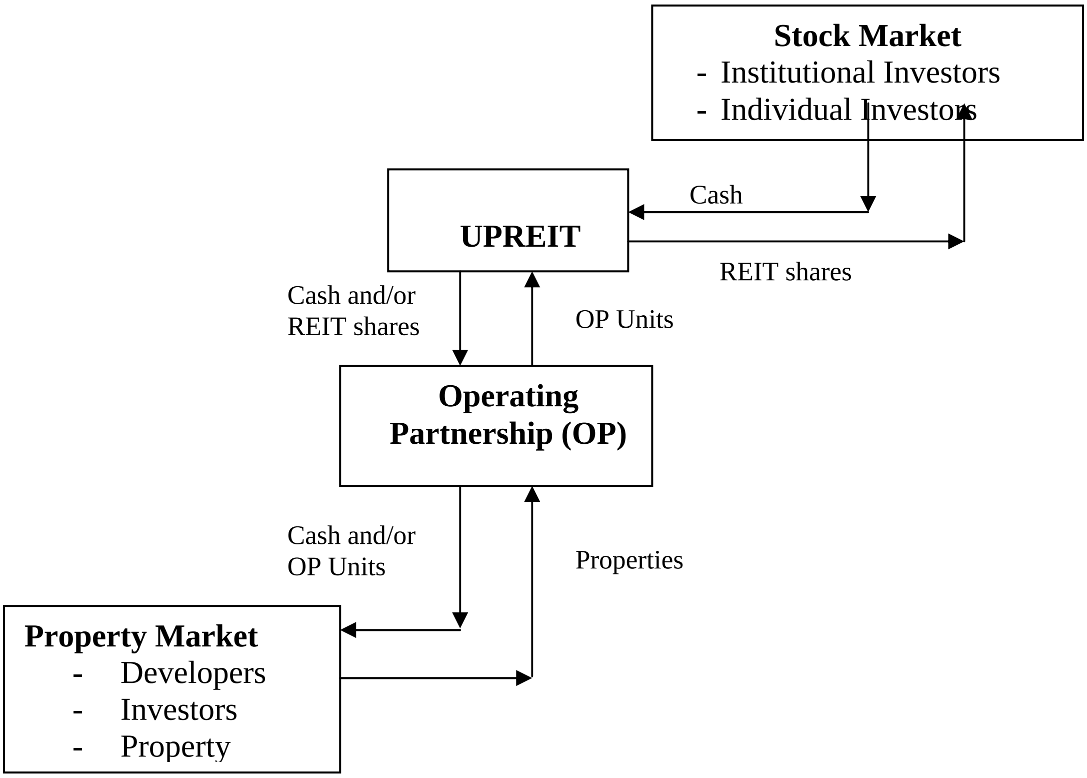


Figure 3: An illustration of the UPREIT concept

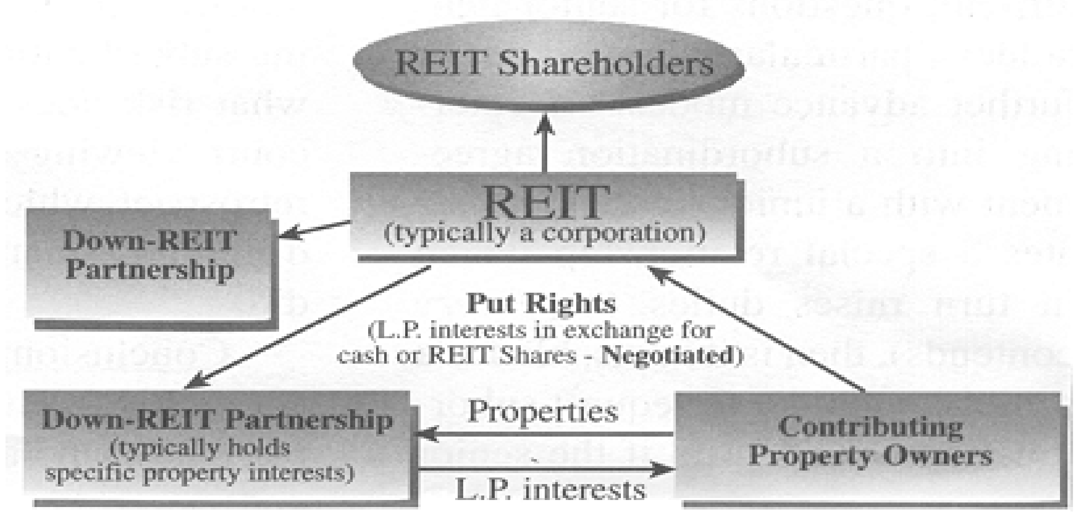


There are many advantages of using the UPREIT structure. First, a REIT can acquire properties in a way that offers special tax advantages to the seller. Second, it can purchase properties using either cash or partnership units, or even the combination of the two. This will substantially reduce a REIT's need for capital. As previously mentioned, a REIT is required to pay out a substantial portion of its taxable income as dividends. An UPREIT has certain advantages over traditional REITs in making property acquisitions because of the ability to offer partnership units to purchase property.

(2) Down - REIT:

The Down - REIT structure was created as an analog of UPREITs for the REITs which did not have to form an umbrella partnership and also to provide additional structuring flexibility for existing REITs. In fact, UPREITs have used Down - REIT structure to provide additional structuring flexibility as well (Chilcote, 2002). Down - REITs are structured similarly but usually formed after the REIT becomes a public company, and generally do not include members of management among the limited partners in the controlled partnership. Similar to the UPREIT, a Down - REIT also allows a REIT to acquire property on a tax - deferred basis through the issuance of partnership units. However, unlike an UPREIT, a Down - REIT can own multiple partnerships at the same time and may own assets at both the REIT and the partnership levels (Chan et. al, 2003, p.50).

Figure 4: Typical Down - REIT structure



Source (Figure 2 and Figure 4): UPREIT, DOWN-REITs and Other REIT Vehicles: Should You Go Along for the Ride? Lee A. Chilcote of Arter & Hadden LLP

REITs structured as UPREITs or Down - REITs can exchange operating partnership (OP) units for interests in other real estate partnership that own properties the REIT wants to acquire. Such an acquisition does not threaten the sellers with adverse tax implications. By receiving OP units an a “like-kind” exchange, the sellers can then not only defer the payment of taxes but also gain the advantage of having a more diversified form of investment. This gives the UPREIT or Down - REIT a competitive edge over a regular REIT when it comes to making a deal with tax-sensitive property sellers.

Since not all REITs are currently using the UPREIT and Down - REIT structures, one can safely guess that they must have certain disadvantages. Similar to any partnership structure, the cost of maintaining tax records for UPREITs and Down - REITs is significant and the task complex. This is particularly true when a REIT owns multiple partnerships or acquires properties by issuing operating partnership units. The other major cost of the UPREIT structure is the conflict of interest among stakeholders. Because the tax advantages are what draw the limited partners to the UPREIT structure, to protect the tax advantages of some limited partners, a REIT will have to take the partners' interests into consideration when it makes decision on the debt level of the firm and on dispositions of properties.

Table 1: Number of traditional REITs, UPREITs and Down - REITs during the 1995-2000 period

REIT Types	2000	1999	1998	1997	1996	1995
Traditional REITs	116	97	108	118	157	172
UPREITs	109	106	104	80	69	65
Down - REITs	18	14	11	9	0	0
Total	**233**	**217**	**223**	**207**	**226**	**237**

Source: Su Han Chan, John Erickson, Ko Wang, *Real Estate Investment Trusts, Structure, Performance and Investment Opportunities, Oxford University Press, 2003.*

Table 2: Comparison of the attributes of a typical UPREIT and Down-REIT

Item	UPREIT	Down-REIT
Rate of Return to Contributing Owner	Identical in amount to those received by REIT shareholders	First priority return equal to the return of the former owner at the time of contribution or a return that mimics REIT shareholder return
Diversification	Diverse larger pool of assets to generate cash flow	Single asset or non-diverse smaller pool of assets
Put Option	Units exchanged on a one for one basis with REIT shares	Negotiated exchange ratios

Sale of Contributed Property	Triggers taxable gain with more cash to other UPREIT partners but contributing owner will have remaining investment	Triggers taxable gain with more cash going to contributing owner but no remaining investment
Tax Differences	Disguised sale rules are not likely to apply Anti-abuse rules specifically sanction UPREITs	Disguised sale rules may apply Anti-abuse rules may apply

Source: UPREIT, DOWN-REITs and Other REIT Vehicles: Should You Go Along for the Ride? Lee A. Chilcote of Arter & Hadden LLP

3. Ownership structure:

According to ownership structure criteria, REITs can be *public or private REITs*. In fact, REITs do not have to be a public company because there are many private REITs. Choosing REIT status is a separate decision from the decision to list on a public exchange.

a. Public REITs (Publicly traded REITs): are governed by the same SEC and listing rules as all other publicly traded companies, and are normal companies in every way except taxation. The decision to go public depends on the desire to access large pools of anonymous capital, versus the willingness to adhere to the rules imposed on public companies. They are many, including: reporting executive salaries; detailed audited financials; disclosing materials information such as planned financing, developments…. In addition, public REITs are also required to comply with the financial reporting procedures and governance requirements which have led to more financial transparency.

Most REITs are structured as publicly traded securities and offer liquidity and some capital appreciation potential. Investors can buy or sell these securities easily as they desire and at cheaper price. Like other stocks, however, public REITs are subject to the daily pressures of the market, interest rate changes, corporate scandals, sector developments and even sometimes factors that are irrelevant to the value of the real property assets, therefore investors may experience price volatility based on factors that have very little to do with real estate conditions (Baker, 2003).

b. Private REITs (Non - public REITs): The nature of privately held REITs is that they are not subject to public disclosure, and have no obligation to register with the Securities and Exchange Commission (or securities regulator). Normally, private REITs do not trade on any exchange and have no public market[4]. Similar to public REITs, they offer investors a way to reap fatter yields than they possibly get in any other sectors of the stock markets. And like public REITs, they buy everything, from office buildings to shopping centers to warehouses. However, non-public REITs are not traded on any exchange and, therefore, are not subject to the level of price volatility caused by market whims that have very little to do with real estate as an asset class. Private REITs should not be considered liquid investments because most have certain provisions that allow for discounted redemptions under difficult situations, although, by and large, investors should plan to hold these securities for the long-term (5-10 years).

Table 3: Comparison of the attributes of public and private REITs

Criteria	Publicly Traded REITs	Private REITs
Overview	REITs that file with the SEC and whose share trade on national stock exchanges	REITs that are not registered with the SEC and whose shares do not trade on national stock exchanges
Liquidity	Shares are listed and traded daily on stock exchanges with minimum liquidity standard	Shares are not traded on public stock exchanges. Existence of, and terms of, any redemption programs varies by company and are generally limited in nature
Transaction costs	Broker commissions typically range between $20 and $150 per trade, depending on brokerage service. Investment banks receive a 2-7% fee to underwrite initial or follow-up offerings. Offerings expenses vary based on deal size.	Varied by company
Management	Typically self advised and self managed	Typically externally advised and managed

[4] Retrieved on 24, August 2010 from
http://www.reit.com/AboutREITs/~/media/Portals/0/PDF/2009%20REITTypesNewCovers.ashx

Minimum investment amount	One share	Typically $1,000-$25,000; private REITs that are designed for institutional investors require a much higher minimum
Independent Directors	New stock exchange rules require a majority of directors to be independent of management. New NYSE and NASDAQ rules call for fully independent audit, nominating and compensation committees	Not required
Investor control	Investors re-elect directors	Investors re-elect directors
Corporate Governance	Specific stock exchange rules on corporate governance	Not required
Disclosure Obligation	Required to make regular financial disclosure to the investment community, including quarterly and yearly audited financial results with accompany fillings to the SEC	Not required
Performance measurement	Numerous independent performance benchmarks available for tracking public REIT industry. Wild range of analyst reports available to the public	No public or independent source of performance data available

Source: WWW.REIT.com [5]

While public REITs are traded similarly to stocks, non-public REITs are quite comparable to bonds. And yet, these fixed-income securities often offer remarkably higher yields without the price pressures. Because private REITs are not concerned with daily market valuations and public investor acceptance, managers are better able to focus on the business aspects of overseeing their underlying properties. They only concentrate on building strong tenant relationships and the day-to-day maintenance and improvements that enhance property values. Public REIT managers must spend much of their energies to investor relations which may detract from the basic essentials of the real estate management business.

[5] Retrieved on August 25, 2010 from http://www.reit.com/AboutREITs/~/media/Portals/0/PDF/2009%20REITTypesNewCovers.ashx

C. Benefits of REITs:

1. Benefits for investors:

From the previous discussion, this paper will focus on the public equity REITs which buy, manage, renovate, maintain, and occasionally sell real properties. As its nature, REIT can pool different financial resources from many different investors to invest in real estate market. Therefore, REITs are considered very important players in the real estate market.

For investors, the question to ask is whether REIT stocks are good investments, if they invest in REIT stock, would they be able to outperform the general stock market. This difficult question can be answered based on historical evidence. In general, REITs can provide investors with following benefits:

a. Liquidity:

Because REIT shares are listed in the stock exchanges and OTC market, investors can purchase REIT shares just in the same way as they purchase shares in any other publicly traded companies. That's why it's easy to enter or exit a REIT. The liquidity advantage becomes a useful tool for the REIT investor under a number of different circumstances. The daily liquidity of REIR allows an investor to move into or out of a property category such as apartments easily.

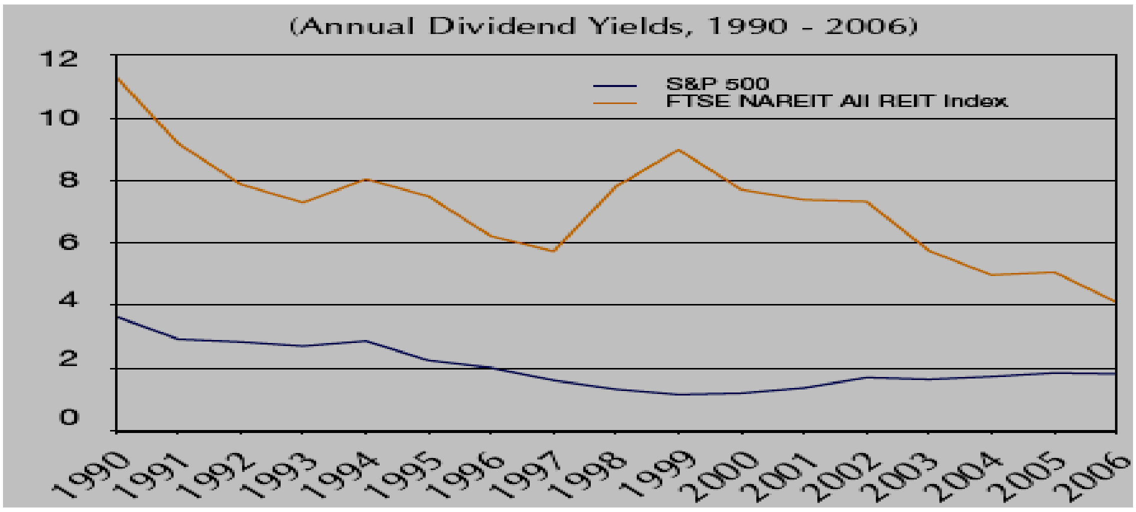
b. High returns:

(1) Dividend yield: The most notable return from REITs is high dividend. For investors, they buy REIT stocks because of their rich dividends. According to NAREIT and S&P, during the period from 1990 to 2006, REITs typically deliver annual dividend yields of between 6 to 7%, three times higher than the average 2% yield paid out by the 374 dividend-paying stocks in Standard & Poor's 500 - stock index (S&P 500). Beside dividend yield, investors can earn more money because REITs are required by law to pay out 95% of their

income as dividends to their shareholders. Significantly higher than other equities on average, the industry's dividend yields generally produce a steady stream of income through all market conditions. This can often prevents the investor from becoming discouraged enough to sell out at bear market lows.

Despite the fact that the dividends are fully taxable, that the reinvest rate is low and that REIT earnings grow at a slower pace than average pace, REIT investors will pay more attention to higher dividend and higher total return. Therefore, in any market conditions, bullish or bearish, the investors in REIT shares will enjoy a stable stream of income.

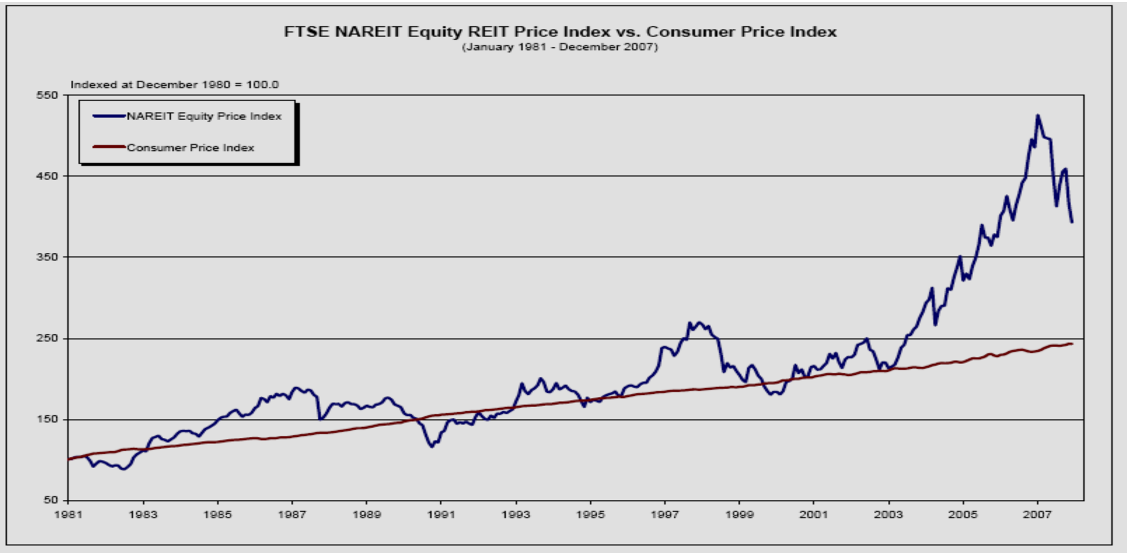
Figure 5: REIT dividend yield versus S&P 500 dividend yield (1990-2006)



Source: National Association of Real Estate Investment Trusts and Standard and Poor's.

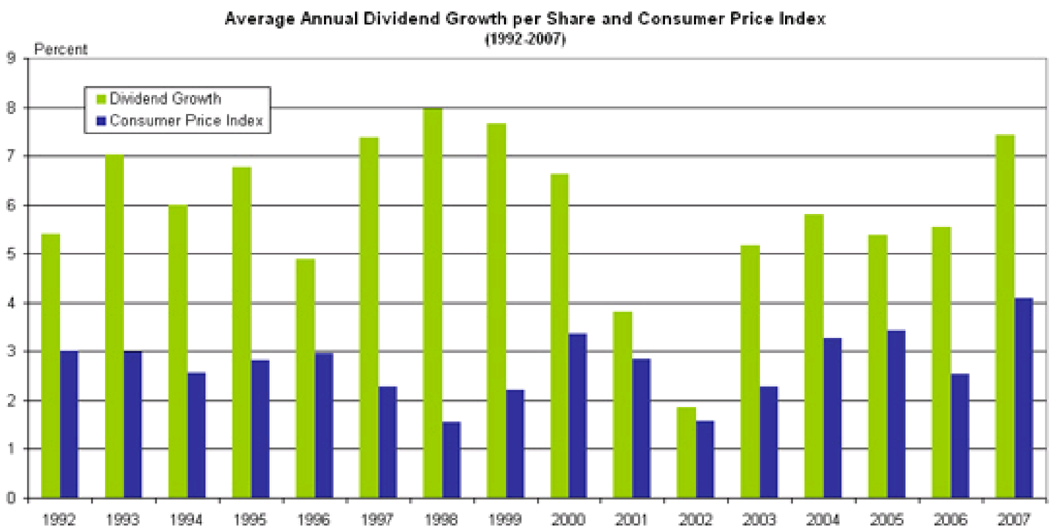
(2) Share price appreciation: Just like investors in other public companies, REIT investors benefit from both dividend income and share price appreciation. According to NAREIT statistics, approximately one-third of the total return from REIT stocks over the last 20 years came from moderate, long-term growth in share prices. This growth generally has matched or exceeded changes in the Consumer Price Index over the last 2 decades, protecting shareholders' capital from the ravages of inflation (illustrated in Figure 6).

Figure 6: FTSE NAREIT Equity REIT Price Index vs. Consumer Price Index (January 1981 - December 2007)



Source: NAREIT Chart Book 2008

Figure 7: Average Annual Dividend Growth per Share and Consumer Price Index (1992-2007)



Source: NAREIT Chart Book 2008

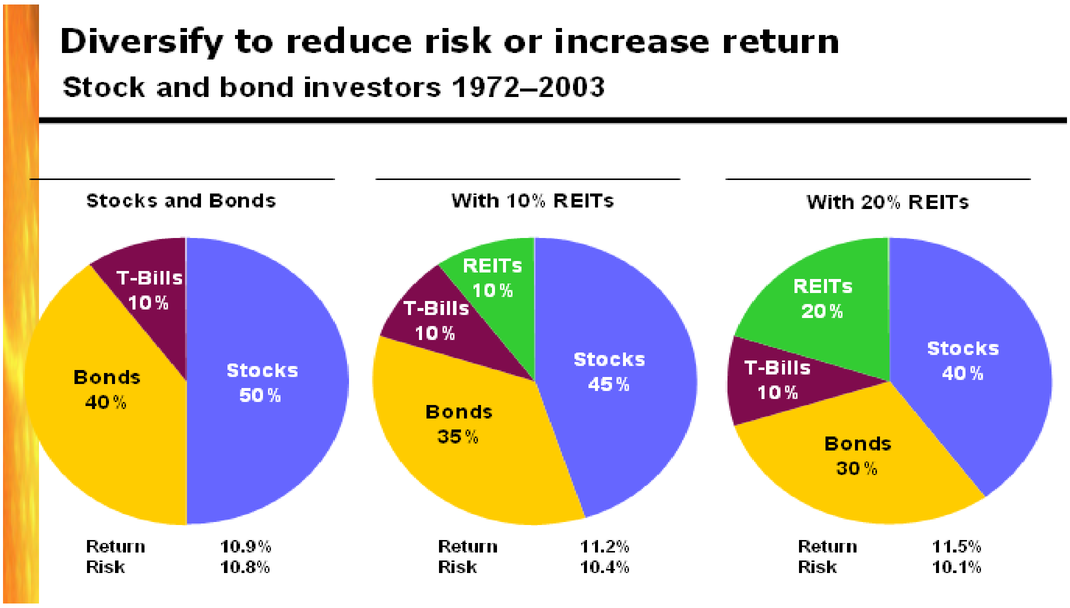
c. Diversification:

Most studies show that the REIT correlation with the stock market is generally quite low. According to NAREIT, REIT stocks' correlation with the S&P 500 during the period from January 1993 through October 2001 was just 0.24, it means the price movements in REIT stocks have had only 24% correlation with the broad market, during that period. That's why REITs offer diversification to investors' portfolio because they don't correlate well with the rest of the market. In deed, since the price movement of equity REITs is also affected by the general movement of the stock market, equity REITs cannot be perfect substitutes for unsecuritized real estate because their risk and return characteristics are not the same.

There are significant benefits of adding REITs to the investors' portfolio. In particular, if investors include REITs in their portfolio of stocks and bond, this will significantly improve the performance for the portfolio because the investors' return target rises due to the high and stable dividend payouts. In an analysis of the diversification benefits of public and private real estate for pension funds, Geltner and Rodriquez (1997) show that, more aggressive investors should increase the percentage of their portfolio devote to REITs and other stocks and decrease the percentage devoted to private real estate and bonds. This is due to the higher average mean returns associated with REITs.

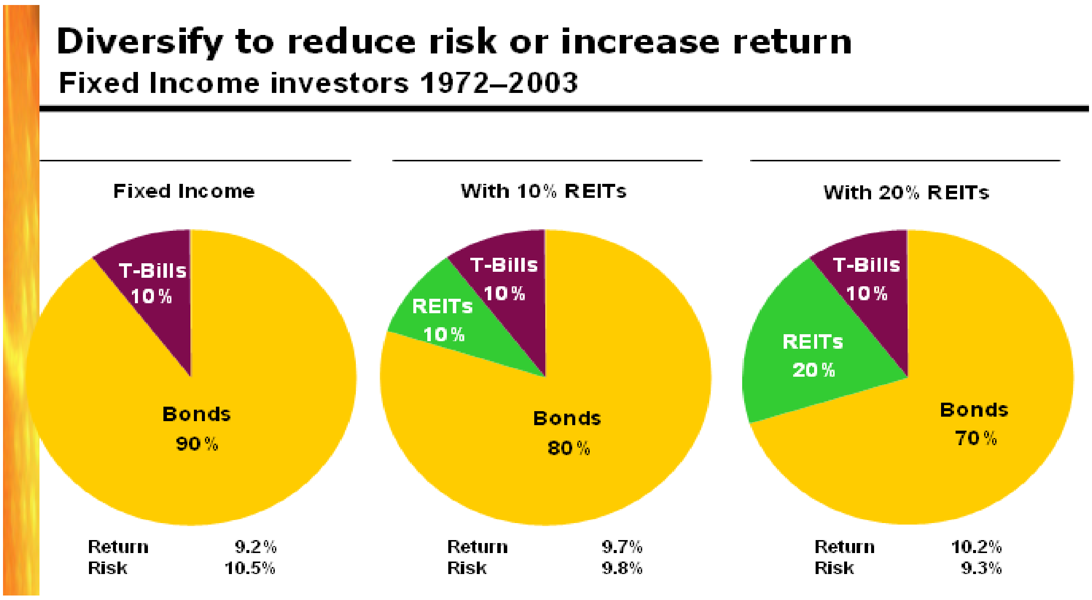
In more simple words, there is a need to find an easy way for investors to invest in real estate. Since the price for individual commercial properties is very high, it is typically difficult for small investors to come up with the required funds to invest direct in them. Furthermore, individual investors may not have the required expertise to select properties for investment, and even for those who do, the search costs may be too high. Therefore, including REIT stocks in their portfolio will bring them the diversification benefits and other benefits mentioned above.

Figure 8: Illustration of diversification benefits



Source: Stocks - Standard & Poor's 500, Bonds - 20-year U.S Government Bond; Treasury Bills - 30-day U.S Treasury Bill; REITs - National Association of Real Estate Investment Trusts (NAREIT) Equity REIT Index; Estimated by Ibbotson Associate

Figure 9: Illustration of diversification benefits (Fixed income investors)



Source: Bonds -20-year U.S Government Bond; Treasury Bills -30-day U.S Treasury Bill; REITs - National Association of Real Estate Investment Trusts (NAREIT) Equity REIT Index; Ibbotson Associate

d. Other benefits:

Besides the above mentioned benefits, REIT stocks also bring about several advantages that cannot be found in companies among other industries:

- Low volatility and low risk: Most observations of the REIT market over the last 3 decades have led to the conclusion that REIT stocks are simply less volatile, on a daily basis, than other equities. Apart from higher returns, REITs also help reduces risk because REITs generally don't move in the same directions as the stock or bond markets.

- ***Low leverage***: Because the average REIT debt ratio has generally been below 50% for much of the last decade.

- ***Predictable revenue stream***: Because REIT income is derived from rents or interest payments which are signed in contracts for long periods of time.

2. Benefits for the economy as a whole:

a. REITs provide more investment opportunities:

REITs bring about more investment opportunities for both individual and institutional investors to take part in real estate market. In fact, REITs provide long-term capital for real estate projects or real estate developers by wide mobilization. In addition, REIT shares are available for small, individual investors; therefore, more ordinary people can own real estate properties.

With the defined source of capital, REITs can also operate the properties that they invest in, which in return can help properties developers reduce debt burden. Moreover, REITs (mortgage REITs) can also buy back loans from real estate developers. Their portfolios usually consist of groups of mortgage loans and/or investment in mortgage pools packaged by government agencies or by investment banks.

b. REITs create safe and professional environment for real estate business activities: Investment policies and REIT's structures are regulated by laws in order to ensure the safety of these investments and stable return for investors. As mentioned earlier, most REITs use their capital to buy complete properties then rent out. The major income source for REITs is rents and REITs usually are not allowed to loan or borrow, however, these restrictions are narrowed partially or even removed with organizations like operating partnership.

Furthermore, REITs can hire outside individuals to manage its day-to-day operations, this includes making decisions on the purchase and financing of properties for a REIT. The outsiders are usually *property managers* who can handle matters related to the leasing, management, maintenance, and operational aspects of their properties and *advisors* who carried out functions similar to mutual fund managers to select their properties and to execute their investment strategies. These outsiders are required by law (through licensing systems) to have professional skills and conducts. In other words, these requirements are strict to maintain the effectiveness and efficiency of REITs activities. Effective and efficient property management is also crucial; the importance of competent, experienced management cannot be overstated, and individuals often lack the resources (time, money and expertise) to accomplish this.

c. REITs help develop the real estate market:

It is quite clear that REITs, through their various services, help develop the real estate market. This include the ability to provide new services to tenants (thus remaining competitive with non-REIT property owners), better quality control over the services offered (which may now be delivered directly by the REIT's new controlled subsidiary), and the prospects of earning substantial non-rental revenues for the REIT and its shareholders.

Today's well-run RET is a dynamic business. It achieves growth by increasing the operating income on the properties it owns and by raising capital for acquisitions and new properties development. The vast majority of REITs nowadays *own real property* rather than make real estate loans. The real money in real estate comes from acquiring good properties at attractive prices or developing them at good price, managing them efficiently, and realizing long-term price appreciation potential.

d. REITs help develop the stock markets:

As discussed previously, REIT stock can be viewed as a form of securitized real estate representing claims on real property or mortgages. REIT stocks are traded in traditional auction market in which large number of buyers and sellers continuously trade securities based on the information flow about the securities' value. Moreover, the value of a REIT's stock reflects the contribution made by the management of its properties rather than simply the returns to passively managed properties. For investors, it is clear that there are certain advantages to including REIT stocks in a portfolio because REITs do possess certain unique characteristics.

REITs stocks are considered attractive long-term investment vehicles because of all the benefits they bring about for investors. We can say that there is a clear demand for REIT stocks by investors. Investors could find REIT stocks attractive even when interest rates are low, when the stock market performs poorly or when the stock market is volatile. Looking back the history, by the end of 1994, after the IPO boom of 1993-1994, as a result of a huge increase in the dollar amount of initial and secondary public offerings, the REIT industry had mushroomed. According to NAREIT statistics, the total dollar amount of offerings in those 2 years was $18.3 billion and $14.7 billion, respectively, about 117% and 46% of the total REIT market capitalization at the time. The next offerings boom happened in 2005-2006 when the capital raised was more than $39 billion and $49 billion, respectively.

Over time, the number of REITs listed in the New York Stock Exchange, American Stock Exchange and NASDAQ has amounted to 142 REITs, with the capitalization as of December 2009 of more than $740.8 billion (CBRE 2009). Furthermore, the daily trading volume of these listed REITs has increased significantly since 2002 adding more liquidity to the stock market. REIT stocks now firmly recognized as strong and stable investments.

Table 4: Market capitalization from 2000-2009 (US REIT market)

Composite		**Equity**		**Mortgage**		**Hybrid**		**Market Capitalization**
End of Year	# of REITs	Market Capitalization	# of REITs	Market Capitalization	# of REITs	Market Capitalization	# of REITs	
2000	189	138,715.4	158	134,431.0	22	1,632.0	9	2,652.4
2001	182	154,898.6	151	147,092.1	22	3,990.5	9	3,816.0
2002	176	161,937.3	149	151,271.5	20	7,146.4	7	3,519.4
2003	171	224,211.9	144	204,800.4	20	14,186.51	7	5,225.0
2004	193	307,894.73	153	275,291.04	33	25,964.32	7	6,639.37
2005	197	330,691.31	152	301,490.98	37	23,393.73	8	5,806.61
2006	183	438,071.1	138	400,741.4	38	29,195.3	7	8,134.3
2007	152	312,009.0	118	288,694.6	29	19,054.1	5	4,260.3
2008	136	191,651.0	113	176,237.7	20	14,280.5	3	1,132.9
2009	142	271,199.2	115	248,355.2	23	22,103.2	4	740.8

Source: www.REIT.com [6]

Since the size of REIT industry keeps increasing, more and more properties with large capitalizations will be traded in the stock markets. As far as the size of properties owned by this industry is concerned, it will take the stock markets long time to securitize even a small portion of the properties in the real estate market. However, as REITs continue to move into the stock markets through significant waves of IPOs and secondary offerings, REITs will become a more important part of the stock markets as a whole.

[6] Retrieved on August 25, 2010 from http://reit.com/IndustryDataPerformance/MarketCapitalizationofUSREITIndustry.aspx

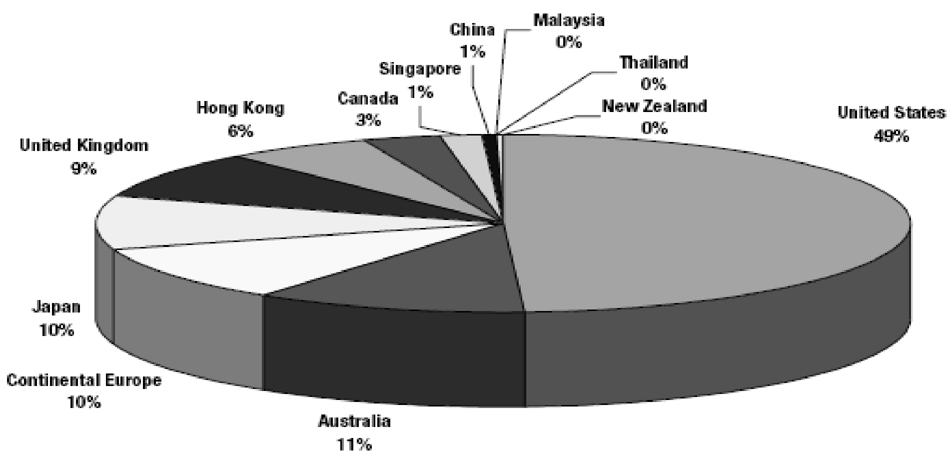
In conclusion, in this Part, some backgrounds about REITs have been mentioned from the definitions, requirements, different types of REITs and their characteristics and benefits that REITs offer to investors and the economy. Although the REIT concept dated back to the 19^{th} century, the history known to investors and common public is still relatively brief. However, the REIT industry has been expanding and has the great potential to expand further in the future. The unprecedented growth in the number of REITs, their market capitalization, and institutional interest in recent years made this industry more and more attractive. In the next part, the experience of some Asian countries in developing REIT markets will be studied. These countries include Japan, Korea, Singapore, Hong Kong and Malaysia which are more developed than Viet Nam but share some similar market conditions when they first launched REITs.

II. SOME ASIAN COUNTRIES' EXPERIENCE IN DEVELOPING REITS:

The adoption of the U.S. REIT concept (or a similar form of organization) by foreign governments, including Asian governments, has made REITs global presence. Apparently, the potential benefits associated with the securitization of real estate, such as increase liquidity and the more efficient allocation of real estate capital, appeal to property investors abroad. The speed of adoption will depend on number of factors, primarily the extent to which public policymakers in these countries view the REIT concept as a way to reinvigorate their real estate market.

Currently, there are a significant number of countries with listed property trust markets and they vary in size and liquidity. It's predicted that the next boom of REIT markets will be in Asia. In recent years, several Asian countries have been exploring the possibility of using REITs as a way to revitalize their real estate markets. The continued launch of REITs in the Asian countries is facilitating the transfer of ownership of real estate from the private to the public markets and also enabling the diversification for investors across local real estate market with different economic cycles.

Figure 10: Weights in EPRA/NAREIT Global Real Estate Index (by Mkt. Cap)



Source: Citigroup Investment Research. It's estimated that China is roughly 10% of the Hong Kong' share. Additionally, Malaysia, Thailand and New Zealand represent less than 1% of EPRA/NAREIT weight

A. Japan's case:

1. Background:

The REIT market in Japan originated from the collapse of the economy in 1990s. At that time, there was no capital market for real estate, then the only way to mobilize fund for real estate market is from bank loans. It was a common perception that loans backed by real estate would never decline in value and would be perfectly safe. However, the real estate market collapsed, changing the perception. After the crisis, credit organizations started to impose more requirements on loans. As a result, REIT structure became a way out for real estate businesses.

Back in 1999, Japan was moving in the direction of launching a REIT stock market to revive its stagnant real estate and enhance liquidity. In November 1999, the Japan Nikkei jumped 2% when the Tokyo Stock Exchange (TSE) announced that Japan was considering such a move. In late November 2000, Japan released details of a new law that abolished its current legal ban on REITs and paved the way for listing of REITs on the TSE. In May 2001, a government study group proposed measures to promote REITs in Japan (J-REITs) to kick-start the stagnant property market. The report also points out that REIT capitalization in Japan could reach 4 trillion Yen by March 2002. Japan's Ministry of Land, Infrastructure and Transport also said that it will scrap its regulation on REIT minimum size in a bid to foster the new investment vehicle.

The interest in establishing REITs had been strong among firms. For example, real estate giant Mitsui Fudosan Co. and other Japanese real estate companies and financial institutions as well as foreign financial institutions already disclosed plans to embark on a REIT business. Among all potential candidates, Japan Real Estate Investment Corp. and Office Building Fund of Japan Inc. finally became the first batch of REITs to trade on Tokyo

Stock Exchange in 2001. Both REITs commanded a first trading day price higher or equal to their offering price. Although the trading volume of the first listed stocks has been thin since their listing, interest in REITs has not subsided.

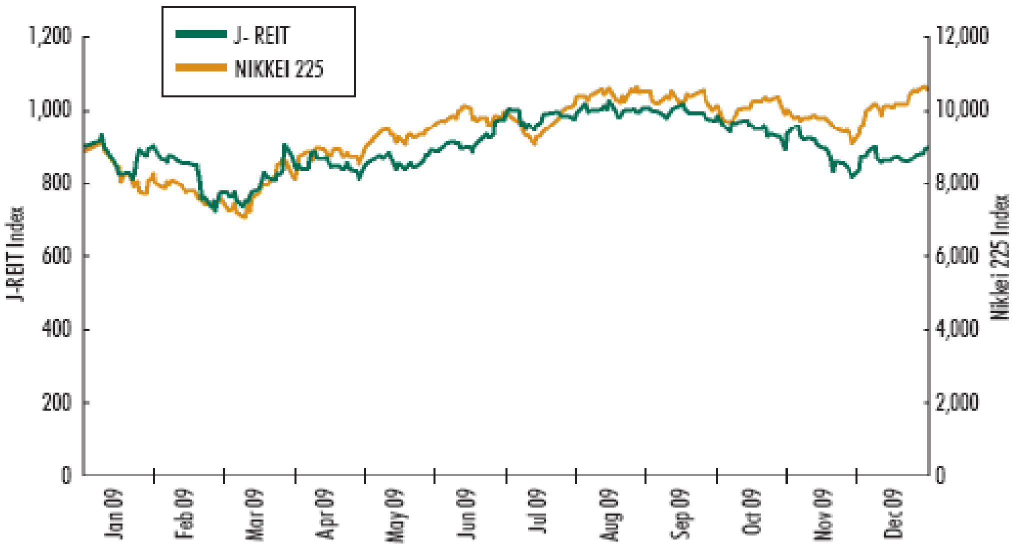
Amid favorable market conditions including rising rents, tightening vacancy and strong demand for stable dividend returns, the J-REIT sector continued to draw substantial investor interest. Foreign investors, in particular, have been key drivers of the market's phenomenal growth. Looking ahead, with Japanese real estate continuing to offer an attractive spread between yield and borrowing costs, further compression in prime Tokyo office property capitalization rates from the current NOI cap rate pricing of 3% to 3.5% is anticipated. In another development, the Ministry of Land, Infrastructure and Transport is considering allowing REITs listed in Japan to acquire foreign properties. The move would enhance J-REIT competitiveness by enabling them to look abroad in order to diversify investments and secure the stable returns sought by investors (CBRE, 2006).

In Japan, there are two types of REITs: corporate style, in which investment corporations issue investment certificates, and contract style, where issues take the form of beneficiary certificates. Both styles can be listed on TSE's REIT market[7].

As of end of 2009, there were 41 listed REITs in TSE with the total market capitalization of US$ 29,473 million making Japan the largest REIT market in terms of number of listed REITs and market capitalization. The weighted average dividend yield of 41 listed REITs in 2009 was at 6.81% while the 10-year Government bonds yield at 1.3%. Most of the year 2009, the J-REIT Index was lower than the Nikkei 225 Index due to several factors, including fragile economic and real estate fundamentals, the strong yen the dilution of public offerings (CBRE, 2009).

[7] Retrieved on August 23, 2010 from http://www.tse.or.jp/english/rules/reits/index.html

Figure 11: J-REIT Price Movement (January - December 2009)



Source: CBRE, REITs around Asia, Second half 2009

2. Regulations on J-REITs:

Before, two key laws were enacted including Real Estate Special Joint Venture Law of 1995 and SPC Law of 1998. In 2000, Japan revised SPC and Investment Trust Law (ITL). Recently, REIT in Japan is governed by four Laws (Lim, 2002):

- Investment Trusts and Investment Corporations Law (ITL)
- TSE Offering Standard (TSE OS)
- Corporate Tax Law (CTL)
- Special Tax Measure Law (STML)

For example, the Investment Trust and Investment Corporations Law requires that a J-REIT can choose the form to be a trust type of a corporate type. However, in reality, the corporate type is more common than trust type because of practices and corporate governance requirements.

Meanwhile, the Special Tax Measure Law provides that REITs cannot hold 50% or more of shares and/or investments of total outstanding shares and/or investments in another company, as either number of shares or monetary investment. At the end of fiscal year, it must be owned by 50 or more shareholders or only qualified institutional investors. The largest three shareholders own less than 50 %. Dividends are deducted as expenses, provided that 90% dividends rule and other requirements are met. The same tax as listed shares, but provisions allowing dividends to be excluded from taxable income do not apply (Lim, 2002).

Tokyo Stock Exchange also has regulations on REIT listing, disclosure requirements, trading rules, clearing and settlement procedures…, such as:

(1) Asset under management:

- Real estate must make up at least 70% of total asset under management;
- Assets such as real estate, real estate related, and liquid assets must make up at least 95% of total asset under management.

(2) Fund:

- Total asset of at least 5 billion yen;
- Net assets per unit of at least 50,000 yen.

(3) Distribution:

- At least 4,000 units listed;
- At least 1,000 units/shareholders/investors;
- Major unit/shareholders may hold no more than 75% of listed units (Tokyo Stock Exchange n.d.)[8].

J-REITs are, by design, externally-advised, passive and closed-end investment companies. An investment company *(toshi hojin)* is a passive vehicle, established pursuant to the *Investment Trust and Investment Corporations Law* (ITL), whose primary purpose is to invest in real estate and other specific types of assets. The investment company must be passive and accordingly must outsource its activities to external managers and administrators.

[8] Retrieved on August 26, 2010 from http://www.tse.or.jp/english/rules/reits/qa1.html#title_7_1

The management of a J-REIT's assets must be outsourced to an investment manager that is licensed under the ITL.

Additionally, to maintain its passive nature, the ITL expressly provides that the J-REIT's scope of business in relation to real estate assets must be limited to the following activities:

(i) acquisition and disposition of real estate;
(ii) lease of real estate;
(iii) delegation of the administration of real estate, and
(iv) other activities other than development activities.

While item (iv) appears to permit a J-REIT to engage in a broad range of activities, the provision is interpreted narrowly and in light of the general structural characteristics of a J-REIT that its activities must be passive and relate to use of real estate in some way. In addition, the ITL also restricts the scope of activities that an investment manager may engage in. In relation to real estate, an investment manager's activities are limited to: the management of J-REIT assets and, subject to prior filing with the Financial Services Agency, ancillary activities such as administration of real estate owned by the J-REIT and investment advisory services relating to the J-REIT. The investment manager may also engage in securities business, real estate brokerage business, and administration of real estate that is not owned by the J-REIT, but only with the approval of the Financial Services Agency.

Given the size of the properties currently held by financial institutions, the size of REIT market in Japan could be very large if it is established as planned. Some industry officials believe there is greater potential for REITs in Japan than in the United States or Europe because of the larger spread between real estate yields and the deposit rates in Japan, which would give investors more incentive to invest in this vehicle.

B. South Korea's case:

1. Background:

After foreign exchange crisis in the end of 1997, discussions about the introduction of REITs are raised actively, in order to stimulate the restructuring of corporate and financial institutions and revitalize the real estate market in Korea. Since REITs can securitize real estates and distribute them to the general public, they were expected to promote the disposal of real estate for restructuring. Especially, REITs can divide real estates into small units and give them liquidity through listing, thus, it provides opportunity for small investors to invest in real estate (Park, 2006).

The formation of REITs in Korea was inspired by the success in the asset management with mutual funds which were initiated in 1998 and followed securitization legislation in 1999. The motivation for establishing REITs in Korea as to enhance the liquidity of the real estate market through securitization, to bring for small investors with opportunities to profit from real estate, and to enhance transparency by posting information of the performance of listed REITs (Eldik, 2005).

The first Korean REIT (K-REIT) was introduced in April 2001, through the enactment of "Real Estate Investment Company Act". Later, in May 2001, corporate restructuring REITs (CR-REITs) were introduced, through the revision of "Real Estate Investment Company Act". The main purpose of introduction of CR-REITs was stimulating the restructuring of corporate and financial institutions. In general, CR-REITs have better tax treatment than K-REITs. With the introduction of REITs, considerable changes are expected in the capital market as well as real estate market in Korea (Park, 2006).

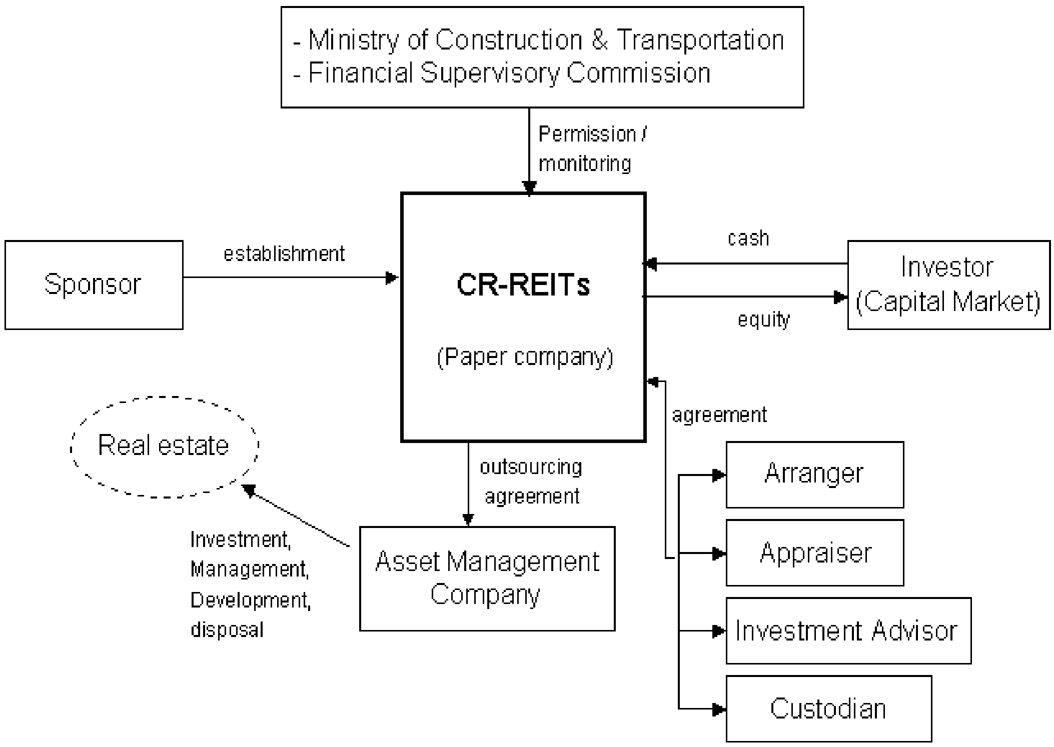
After nearly 10 years since the first K-REIT was established, the total number of K-REITs stood at 36 at the end of 2009, however, only 3 REITs are listed in the Korea Stock

Exchange with the total market capitalization of US$ 132 million (CBRE 2009), showing that the participation in the stock market is limited and that the Korean REIT market needs more time to be an attractive investment instrument.

2. Characteristics, structures and regulations:

K-REITs are on-going companies that own, manage, and develop real properties. Thus assets of K-REITs are self-managed meanwhile CR-REITs are paper companies with finite-life. Asset management of CR-REITs should be trusted outside and mainly managed by independent asset management companies. In this sense, the operating structure of CR-REITs is similar to that of mutual fund. CR-REITs are given more favors in asset management and tax treatment in order to facilitate the restructuring of Korean corporate sectors. Basic structures of CR-REITs can be seen from the following figure. Main stakeholders of CR-REITs consist of sponsors, investors, arrangers, appraisers, custodians, and public authorities (Park, 2006).

Figure 12: CR-REITs structure



In the current regulations, both K-REITs and CR-REITs must be established with a *corporate structure*. In terms of income requirements, for U.S. REITs, at least 95% of the entity's gross income must be derived from dividends, interest, rents, or gains from the sale of certain assets. There is, however, no such a restriction on Korean REITs (Park 2006). Finally, Korea REITs have additional regulations on asset management including a limitation of development, a prohibition of borrowing, and a restriction of raw land investment, which can not be found in the U.S. REITs. These regulations are targeted to protect investors and prevent speculative activities. The comparison of attributes of K-REITs and CR-REITs can be listed in the Table 5.

Table 5: Comparisons of K-REITs and CR-REITs

<table>
<tr><th colspan="2"></th><th>K-REITs</th><th>CR-REITs</th></tr>
<tr><td colspan="2">Organization</td><td>Real entity with infinite-life</td><td>Paper company with finite-life</td></tr>
<tr><td colspan="2">Object of investment</td><td>Real estate</td><td>Real estate subject to corporate restructuring</td></tr>
<tr><td colspan="2">Asset management</td><td>self managed (internal management)</td><td>External Management (Outsourcing the operation to a third party asset management company)</td></tr>
<tr><td rowspan="2">Requirement of establishment</td><td>Minimum capital requirement</td><td colspan="2">50 billion won initially (to 25 billion KRW in 2004)</td></tr>
<tr><td>Ownership</td><td>less than or equal to 10% by 1 individual</td><td>None</td></tr>
<tr><td rowspan="3">Requirement of asset management</td><td>Asset requirement</td><td colspan="2">At least 70% of the value of a REITs must consist of real estate assets</td></tr>
<tr><td>Income requirement</td><td>None</td><td>None</td></tr>
<tr><td>Distribution requirement</td><td>Minimum 90% of distributable income has to be distributed to shareholders as dividend</td><td>At least 90% of distributable income has to be distributed to shareholders, only if exempt business tax</td></tr>
<tr><td colspan="2">Real estate development</td><td colspan="2">- Approval basis; Third party assessment required; 30% capital (relatively to equity capital) for development projects;
- Real estate acquisition, development, operation and resale</td></tr>
</table>

Limitation on asset management	- Prohibit of borrowing - Restriction on short sale (minimum of 3 years holding)	Prohibit of borrowing
Corporate tax exempt	None	100% exempt if at least 90% of distributable income has to be distributed to shareholders
Regulators	Ministry of Construction and Transportation, Financial Supervisory Commission	

In 2004, 3 years after the enactment of the Real Estate Investment Company Act, the first revision of the law was passed in which changes have been made, including:

- Creation of externally-managed REITs as a paper company is allowed, with the wave of corporate income tax;
- Extend the maximum ownership to 30% from 10% for K-REITs;
- Reduction of the capital requirement to 25 billion KRW initially;
- Relax the development restriction (no licensing requirement, and 30% of total asset rather than that of equity capital);

The Real Estate Investment Trust Act was amended for the second time in June of 2007 and became effective in October of 2007. The law was revised in order to encourage the establishment of more REITs. The previous law was criticized for being too complicated and for giving too much discretion to the Ministry of Construction and Transportation (MOCT).

Major elements of the new Korean REIT Law include:

- The simplification of regulatory approval procedures by eliminating the requirements for preliminary approval, and the removal of both the restrictions on investing in development projects and the cap on leverage.
- Along with the acceleration in the approval process, the transaction time involving the transfer of underlying property and the balance payment period is reduced from 60 days

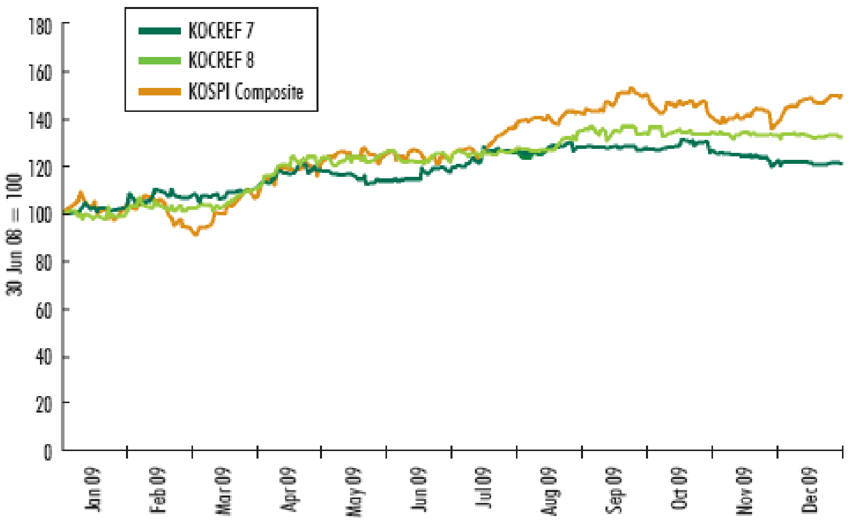
to 40 days, thereby resulting in higher liquidity in the property market (CBRE 2006).

- Paid-in capital requirement is reduced from 25 billion KRW to 1 billion KRW. However, the REIT must increase the paid-in capital to 10 billion KRW within six months of approval by the MOCT.

- Fund and Bond borrowing rate of 200% of equity capital rose to 1000%.

- New law allows REITs to be entirely incorporated by founders, if 30% of the stocks are public subscribed within 6 months of approval by the MOCT.

Figure 13: K-REIT Price Movement (January - December 2009)



Source: CBRE, REITs around Asia, second half 2009

With the modest number of listed REITs in the stock market, there is still room for the introduction of more REITs from the stand point of both supply and demand. The recent changes in the REIT Act provide evidence of the government's support to the development of the Korean REIT market and provide additional underpinning for the positive outlook (CBRE 2006).

C. Singapore’s case:

1. Background:

The idea of developing listed property trusts (REIT) was mooted back in 1986, when Singapore property market was in doldrums following its first post-independent economic recession in 1985 (Tien-Foo, 2005). Then the Singapore Stock Exchange made recommendations for the development of REITs in 1998 and the Monetary Authority of Singapore (MAS) revealed the guidelines for Property Funds in May 1999. However, the first REIT listed in the stock exchange was in 2002. Market timing and lack of tax transparency were cited by analysts as the main causes for the lukewarm response to the maiden S-REIT at the time. (cf Eldik, 2005, Tien-Foo, 2005 and CBRE, 2009).

The Singapore’s REIT market is one of the three important markets in Asia together with Japan and Hong Kong. One of the reasons is that the Singapore Government is trying to make Singapore the most attractive financial hub in Asia, competing with Tokyo and Hong Kong. Therefore, Singapore’s REIT market has taken advantage from government actions, like a tax waiver on REIT income. As end of 2009, there have been 21 listed REITs with the total market capitalization of US$20,617 million, second largest market after Japan. The average dividend yield that S-REITs offer in 2009 was 7.74% compared with the 10-year Government bond yield of 2.66% (CBRE 2009).

2. Characteristics and regulations:

S-REITs adopt an externally managed/advised model, where a third party asset manager is appointed to provide professional asset management service. The model is prevalent for Australia’s Listed Property Trusts (LPT) and many US REITs listed in 1970s and 80s. MAS has undertaken a review of regulatory framework on REITs in June 2005 that aims to strengthen oversight of REIT managers, and improve corporate governance practice and alignment of interests between REIT manager and unit holders. The new guidelines may include licensing of REIT managers, more disclosure of acquisition and divestment fees payable to REIT managers, and obtaining two independent valuations in the acquisition of properties from interested party (CBRE, 2008).

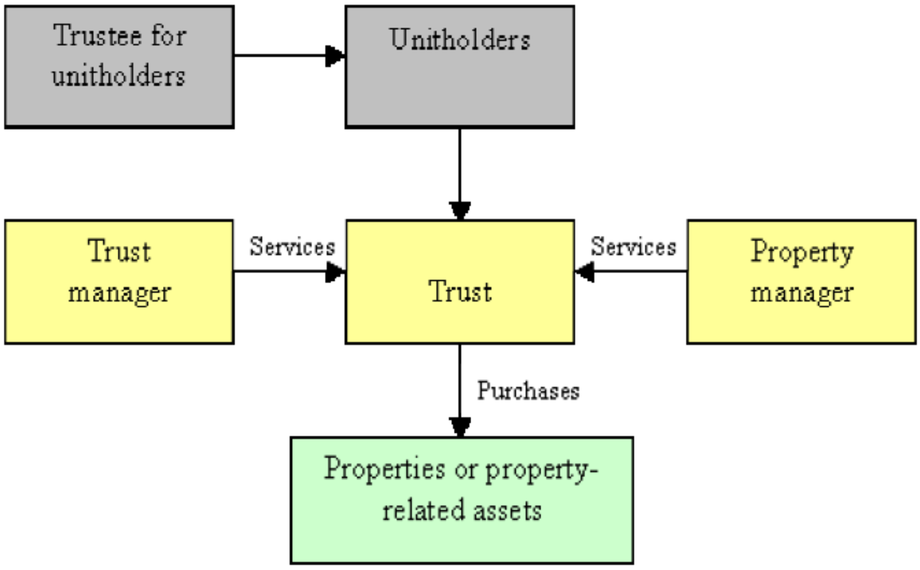
In the current regulations, the legal form of S-REIT can be a trust or a corporation. S-REITs must comply with several Laws and regulations, such as:

- Securities and Futures Act and Regulations;
- Trust Company Act;
- Listing Manual of Singapore Stock Exchange (SGX);
- Property Trust Guidelines.

Some of the details of S-REITs are as followed (among others):

- *Percentage invested in real estate*: at least 70% of deposited property should be invested in real estate or real estate-related assets; At least 35% must be invested in real estate within 24 months from launch (Eldik 2005)
- *No restrictions on geographical investment*: a S-REIT can invest in Singapore properties or foreign properties;
- *Property development*: Property developments and investment in uncompleted projects should not exceed 10% (CBRE 2009);
- *Borrowings:* Leverage of over 35% of total assets permitted with disclosed credit rating (capped at 60%) (CBRE 2009);
- *Profit distribution*: S-REIT is required to distribute at least 90% of its taxable income in the form of dividend to its unit holders so as to enjoy exemption from paying corporate tax (CBRE 2009);

Figure 14: S-REIT structure



The REIT regime in Singapore is considered the most open compared with other countries in the Asian region, thus making it an attractive market so far. Looking at the performance of all the listed S-REITs, investors consider S-REITs yield instruments rather than the capital gain instruments. Besides, S-REITs also offer investor with relatively liquid way to gain exposure to Asian real estate market. Generally well managed by professional managers, S-REITs are unlikely to go under and considered to be the safe instruments in the long run (CBRE 2009).

D. Hong Kong's case:

Hong Kong introduced REIT market in 2003, however, the growth and development of the H-REIT market has lagged Japan and Singapore, largely because of more restrictive REIT structures. Hong Kong's REIT structure has several disadvantages that help explain why Fortune REIT opted for the S-REIT format rather than a Hong Kong listing. Most importantly, Hong Kong REITs receive no tax benefits. As long as the restrictions remain, little incentive exists for the many large listed property companies already in Hong Kong to adopt the structure (Philip and Marc 2006).

Under the current regulation, an H-REIT must be a unit trust located in Hong Kong and must be listed on the Stock Exchange of Hong Kong. Besides, an H-REIT must appoint a trustee that is functionally independent of the management company of the REIT and that acts in the best interest of unit holders. It also must appoint an independent property appraiser and the management company must be accepted by the Securities and Futures Commission (SFC). There is no preferential tax regime for H-REITs, however, loss of REITstatus means units cannot be offered to the public (cf Ernst &Young, 2010)[9].

- ***In terms of income and asset regulation***, (Ernst &Young, 2010) also list some of the basic rules, such as:

(1) The H-REIT must invest primarily in real estate that generates recurring rental income;

(2) I may invest in real estate located in Hong Kong or oversea; It must not invest in vacant land or engage in property development activities, except refurbishments, retrofittings or renovations;

(3) Investments in hotels, serviced apartments and recreation parks are allowed if held by SPVs;

(4) It must not lend to, or become contingently liable for any indebtedness of, any person or use its assets to secure any obligations without prior written consent of the trustees.

(5) It must not acquire any asset that involves the assumption of any liability that is unlimited.

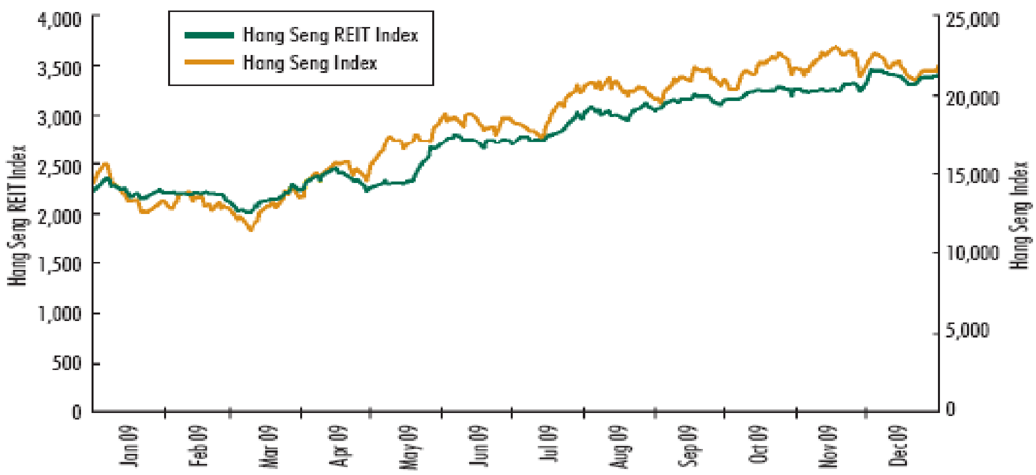
(6) It must hold its real estate for a period of no less than 2 years unless otherwise approved by its unit holders.

[9] Ernst & Young, Global Real Estate Investment Trust Report 2010, "Against all odds", 2010

- ***In terms of income distribution***: The H-REIT must distribute at least 90% of net income as dividends to its unit holders annually. No withholding tax is imposed in the dividend income in Hong Kong (cf Ernst &Young, 2010, pp.39-54).

Recently, there are 7 listed REITs in Hong Kong Stock Exchange with the total market capitalization of US$ 9.521 millions, ranked the third in the region, after Japan and Singapore market. The average dividend yield in 2009 was 6.47%, compared with 2.57% of 10-year Government bonds yield (Table 7). In the recent 3 years, while other countries in the region experience negative total return (Singapore and Japan), H-REIT market shows the positive total rate of return of 9.88% (Ernst &Young, 2010). Therefore, H-REITs remain attractive for investors targeting high yield investments with most of H-REITs (except Link REIT) currently posting a dividend yield of more than 8% (CBRE 2009).

Figure 15: H-REIT price movement (January - December 2009)



Source: CBRE, REITs around Asia, second haft 2009

E. Thailand and Malaysia's cases:

Roughly 34% of Thailand's real estate market is publicly traded, representing a total value of $4.6 billion. Thailand's property market is largely focused on residential developers. The most substantial risk is the potential of rising interest rates, which could cause housing affordability to decline. However, the pause in interest rate hikes by the Bank of Thailand has fueled market hopes of an easing of monetary policy, helping to improve the investment climate. Property funds are again attracting interest given their attractive yields of between 6.2% and 8.8%, which compare favorably to government bond yields of approximately 4.7%-5% depending on term to maturity (CBRE 2006).

Thai REITs (T-REITs) offer investors a weighted average annualized yield of about 9% as the end of 2009, making Thailand real estate market offering the highest average yield. During this period of low interest rate, Thai investors have been seeking opportunities other than bank deposits to achieve capital growth. Property funds in Thailand are seen as an ideal alternative as they can offer higher returns than deposit rates, which are currently at 1.25% (CBRE 2009). In 2009, the total number of listed REITs in Thailand was 26 with the total capitalization of US$1,972 million (Table 7).

For the case of Malaysia, the regulatory framework for listed property trusts was approved by Bank Negara (the Central Bank of Malaysia) from very early in 1986. The specific guidelines by the Securities Commission was released in 1991 and revised in 1995 (Eldik 2005). The Malaysian real estate market is highly securitized, with roughly 30% of the total listed property (CBRE 2006).

In Malaysia, the REITs are formed as register trusts and must be managed and administered by a management company approved by the Securities Commission (SC). There is also a minimum fund size of RM100 million. The real estate held by the REIT must be managed by a qualified property manager. The REIT can be listed or unlisted (Ernst & Young, 2010).

In terms of income and asset rule, the regulations also provide that at least 50% of a fund's total assets must be invested in real estate and/or single-purpose companies at all time.

The fund's investment in non-real estate-related assets and/or cash, deposits and money market instrument must not exceed 25% of the fund's total asset value. Moreover, the value of a fund's investments in securities issued by any single issuer must not exceed 5% of a fund's total asset value and securities issued by any group of companies must not exceed 10% of the fund's total asset value (Ernst & Young, 2010, pp.39-45).

(Ernst & Young, 2010) also summarizes some provisions on distribution of REITs, such as:

- REITs will not be taxed on their income, provided that at least 90% of their total income for the year is distributed to the investors. Otherwise, the REIT is subject to income tax on its total income.
- If the REIT distributes at least 90% of its income for a year and is exempted from tax, distribution to unit holders who are individuals are generally subject to a final withholding tax of 15% (reduced to 10% from 1 January 2008 to 31 December 2011);
- If the REIT distributes at least 90% of its income for a year and is exempted from tax, distribution to foreign institutional investors are generally subject to a final withholding tax of 15% (reduced to 10% from 1 January 2008 to 31 December 2011) (Ernst & Young, 2010, pg.49);

To conclude this Part, it is fair to say that the expansion of REIT structure among Asian countries have allowed investors to put money in a variety of markets that are in different points of the real estate cycles, especially in high growth emerging markets and regions where the market for real estate is underdeveloped. The expansion of those structures also provides investors with the opportunity to diversify their real market risk to regions with different local geographic characteristics. While REIT structure is expanding, each country's regulations differ, and all REITs are not created equally. These difference include the internally or externally management, minimum dividend payouts, leverage levels, amongst others.

In the Asia Pacific region, economic growth is fuelling development and securitization of real estate through REITs, which in turn will likely drive activity in the property stock. The stable growing economies of Hong Kong, Japan and Singapore are experiencing a REIT boom and the rapidly expanding economies of Malaysia, Thailand and even China are potential for more growth. This growth is expected to be partially driven by the expansion of property sector capital markets. In the next Part, the current situation of Viet Nam's real estate and capital markets will be looked at to see the possibility of adopting REIT structure in Viet Nam.

Table 6: Comparison of REIT markets in Asia

	Japan	South Korea	Singapore	Hong Kong	Thailand	Malaysia
Legal Structure	Trust or corporate (listed REITs are all corporations)	Corporate-Restructuring, Entrusted Management, Development-Specialized, Self-Managed	Collective investment scheme (Unit trust) or corporate	Unit trust	Closed-end mutual fund	Unit trust
Management Structure	External	Internal/External	External	Internal/External	External	External
% invested in real estate	For listed J-REIT, at least 75% of assets must be invested in real estate	At least 70% in real estates or corporate restructuring related properties	At least 70% of deposited property should be invested in real estate or real estate-related assets	Only invest in real estate	Must invest at least 75% of NAV in property	At least 50% of a fund's total assets value must be invested in real estate and/or single-purpose companies at all times
Geographical restrictions	No restriction under Investment Trust and Investment Company Act, but no overseas acquisitions have been made as the requirements on real estate appraisal of overseas properties are ambiguous	No	No	No	Thailand only	No restriction basically, subject to approval from SC and relevant authorities

Property developments	Restricted – at least 50% of total assets are income producing and unlikely be sold within one year	Allow	Property developments and investments in uncompleted project should no exceed 10%	Prohibited, but H-REIT may acquire uncompleted units comprising less than 10% NAV	May acquire properties over 80% completed but prohibited to invest in dormant land	Prohibited, but may enter in to conditional forward purchase agreement
Leverage	No restriction	REITs are permitted to have exceptional borrowing up to 1000% of equity capital, upon special approval of shareholders	Over 35% of total assets permitted with disclosed credit rating (capped at 60%)	Capped at 45% of grass assets value	Not more than 10% of NAV	50% of total asset value (revised from 35%)
Dividend payout	At least 90% of distributable in come to qualify for tax deduction	At least 90%	At least 90% so as to enjoy exemption from paying corporate tax	At least 90% of annual net income after tax	At least 90% of net profits	No specified in the M-REIT guideline
Legislations establish	2000	2001	2002	2003	2003	2005
Regulating body	Financial Services Agency	Financial Supervisor Company	MAS	Hong Kong Securities and Future Company	Securities Commission	Securities Commission

Source: Various sources

Table 7: Comparison of Asian REIT market performance in 2009

	Number of listed REITs	**Average dividend yield (%)**	**10-Year Government Bond yield (%)**	**Market Capitalization**
Japan	41	6,81	1,3	29,473
South Korea	3	8,71	5,39	132
Singapore	21	7,74	2,66	20,617
Hong Kong	7	6,47	2,58	9,521
Taiwan	8	4,11	1,54	1,800
Thailand	26	9,3	4,18	1,972
Malaysia	12	8,27	4,25	1,540

Source: REITs around Asia, second haft 2009, CB Richard Ellis Research

III. CURRENT SITUATION OF REAL ESTATE MARKET IN VIET NAM:

A. Background:

The establishment and development of the real estate in general is divided into 4 phrases:

- Phrase 1 (Primary phrase): In this primary phrase, people can build their own house. A piece of land or a house on that land is considered a property; therefore, the houses are still simple, less convenient and land-consuming. In this phrase, government policies on land use plays important role for the trading activities of land and properties.

- Phrase 2 - The phrase of construction booming when the land scarcity becomes clear and individuals, with limitation of finance and ability, cannot build a large-scale property or a project themselves. In this phrase, the participation of construction companies becomes active, making those companies and construction managing authority important players in property market.

- Phrase 3 - The phrase of banks: After the booming of property construction, many companies cannot afford to build a property or develop a project form beginning until they can sell that property to resume their investments. Instead, they can use bank loans for their projects. By this way, they can carry out many projects at the same time, thus increasing the speed of their capital and provide more employments. In this phrase, commercial banks and their lending policies toward property projects play decisive role.

- Phrase 4 - The phrase of securitization: To this phrase, the size and scope of property market becomes larger. The commercial banks cannot provide enough long-term funds for the development demands of property industry. Commercial banks do not expand loans to avoid risk of resuming their funds. Then, banks will securitize loans, collaterals and mortgages to mobilize more funds. In this phrase, financial policies, intermediaries and regulatory organizations play the most important role.

The question is that in which stage is the real estate market of Viet Nam in now? The first phrase was from the open policy established in 1986 until 2001 when the government provided portion of land for institutions and individuals. During that time, people would buy houses themselves depending on their financial affordability. The second phrase started when the Government expanded in building multi-floored apartments, luxurious apartments and new satellite cities. The property constructors become investors and sellers. They can mobilize large sources of funds directly from deposits, period payments by their customers, from the time they start the project until complete it. With the preferential policies from the Government in promoting real estate market and the attractive profits, many construction enterprises get involved in this business and promising market.

The overheated speed of development of property construction has consumed most of the construction companies and large portion of commercial banks' fund. However, the percentage of bank loans to real estate projects becomes remarkable while their funds are mainly short-term sources like deposits from the people. Therefore, most of the commercial banks have reached the saturation point in lending for real estate sector. According to the most recent statistics from the State Bank of Viet Nam, as of end of May 2010, the total value of real estate related loans from the whole banking system (including housing loans, loans for real estate businesses in developing infrastructure for production, loans for construction of apartment and offices for rent) was VND192.000 billion (approximately USD100 billion), equivalent to 10.04% of the total value of loans to the whole economy. In 2009, this number was 219,000 billions accounting for 11.76%. It's reasonable to say that Viet Nam property market is in its 3rd phrase when businesses need to rely on the funds from bank loans. However, recently, the banks become more reluctant towards real estate projects because of the low efficiency of those projects and the “frozen” real estate markets once in a while.

B. Current situation:

The real estate market has been performing for short time in Viet Nam; however, there have been fevers in the year of 1995, 2000 and 2002 and frozen markets in 1997, 1999, 2004 and 2005. The last frozen period lasts until 2007 and half of 2008. Before 2003, the market operated quite actively, however, the legal system was not completed and the black market overwhelmed the weak and ineffective official market. Most of the trading activities (70% to 80%) were carried out in the black market during that time. The Land Law took effect in 2003 together with instruction Degrees which boosted the trading activities at the end of 2003. This is because the businesses tried to avoid paying tax according to new and stricter Law. Therefore, a large amount of trading activities was compressed in late of 2003 leading to fewer activities in 2004.

From 2005, the number of office and apartment projects has increased significantly. According to Ministry of Construction, in 2005, the total area of residence was about 21.8 million m^2, increasing the average of urban residence per capita to 10.8 m^2. There are more than 1,500 urban development projects approved, with the total investment of 43,300 billion VND. To 2006, the trading activities of property increased by 25% compared with that of 2005, showing the recovering signs of the property market after long time of being stagnant. With the stable political environment and the great effort from the Government in facilitating business conditions and legal system, more and more foreign investors are investing their money into the real estate market of Viet Nam, especially projects to build apartments, multi-floored buildings and luxurious apartments in big cities.

In the context of the financial crises, the Viet Nam’s economy also passed through a down-turn period. The first half of 2009 witnessed the influence of the crises quite clearly on the real estate market. However, from late 2009, businesses and the Government started to reinvest in the real estate market with more new projects approved and developed. The finance from the Stimulating Package of the Government and the stronger demand from the market lead to the increase in the prices, especially in Hanoi, the price increased from 30 to 50%. This trend lasted until November 2009 then followed by the stagnant period to 2010[10].

The main characteristics of the real estate market in Viet Nam can be seen as followed:

(1) The demand and supply mismatch: The strong and growing demand for all sectors of the market including residential and housing, retail and commercial building, offices… is getting higher and higher, especially in the big cities like Hanoi and Ho Chi Minh City. In the long run, this relation cannot be balanced because of the limited supply, leading to high priced compared with other countries in the region and high rate of occupancy. Besides, the demand for high quality commercial centers and offices, from medium to large size in big city becomes clear;

(2) Viet Nam real estate market is very attractive market for foreign investors: This can be seen in the amount of foreign direct investment funds in real estate market in recent years, which keeps increasing despite the crisis situation. FDI flows mainly to commercial buildings, hotels, tourism infrastructures and resorts. For example, in 2007, FDI to real estate sector reached US$5 billion, accounting for about 30% of the total FDI to Viet Nam. In 2009, out of US$21 billion of the total FDI, FDI for real estate market was US$7.6 billion (about 30%) (Table 9). Only in 5 months in 2010, this number was US$1.28 billion and 17%, respectively. More and more international players (including investors, developers and servicers) are coming to the market, looking for the long-term potential. Some of them are Knight Frank, Savills, CBRE, Colliers and Coldwell Banker.

[10] Saigon Securities Incorporation (SSI), *Industry Prospects*, March 2010.

(3) The concentration of funding and projects in Ha Noi and Ho Chi Minh City, where the infrastructure is the most favorable: The real estate market in Ha Noi and Ho Chi Minh City is the busiest in recent years. The development of real estate industry has contributed to the development of those cities and the improvement of housing conditions. According to statistics, 14.5% and 51% of the total funding to real estate sector are flown to Ha Noi and Ho Chi Minh City, respectively. This is also shown the pressure of fund mobilization on other provinces and localities.

(4) The prices of properties, especially of housing and residential places in Viet Nam are higher than their real value and much higher then the income of the people. If we look at the percentage of the housing loan over the total monthly income in some countries in the world of about 33%, the number in Viet Nam is bigger than 80% of the total monthly income of an average family[11]. This can lead to high risk in the market and the loan crises. The reasons of this situation are known to be high price of input, inflation, shortage of supply, floating prices, information inadequacy, and shortage of houses for rent.

(5) It is accepted that the risk level in the real estate market is still high due to the lack of synchronical legal system, development strategy for the market and other problems relating to investment in land…

At present, Viet Nam's real estate market is still focuses on creating more goods by building and developing new properties rather than buying, selling, managing or renting. However, with the current speed of investment and increasing demand, this market is forecast to enter its 4th phrase of development in the near future.

[11] Viet Nam Finance 2009

Table 8: FDI in 2008 and 2009

	Criteria	Amount	2008	2009	% change
1.	Realized FDI	US$ mil.	11,500	10,000	87%
2	Registered FDI	US$ mil.	71,726	21,482	30%
3	Number of new projects		1,557	839	53.9%

Source: Statistics Office

Table 9: Industry allocation of FDI 2009

	Industry	No. of new projects	Registered FDI (US$ mil.)	No. of Increased-FDI projects	Increased FDI (US$ mil.)	Total (US$ mil.)
1	Hotels and restaurants	32	4,982.6	8	3,811.7	8,794.3
2	Real estate	39	7,372.4	4	236.1	7,608.5
3	Construction	74	388.3	11	99.2	487.4
4	Mineral Exploration	6	397	0	0	397
5	Retail and wholesale	115	191.7	14	46.5	238.2
6	Transportation	26	109.8	5	74.8	184.6
	Total	**839**	**16,345.4**	**215**	**5,136.7**	**21,482.1**

Source: Statistics Office

C. Main financial sources for real estate businesses:

1. Loans from banks*:*

Most of the commercial banks in Viet Nam offer loans for real estate businesses. The leading lenders are state-owned commercial banks such as Bank for Investment and Development of Viet Nam (BIDV), Viet Nam Commercial Bank (Vietcombank), Viet Nam Industrial Bank (VietInbank), and other private and joint-stock banks. Most of loans are short to medium term, from 2 to 5 years, with the interest rate of 14% per year. Not many real estate projects can borrow for 8 or 10 years. The borrowers usually have to use the certificate of land use, assets or even assets formed from the loans as collaterals. At present, it is required by the State Bank of Viet Nam that the total value of medium and long-term loans of a commercial bank can be maximum of 30% of the total value of outstanding loans. Therefore, most of commercial banks choose to offer loans for real estate projects through co-sponsorship with other banks to avoid risk and maintain the lending restriction.

In 2009, the total value of loans to real estate sector accounted for 11.76% of the total outstanding loans. As of end of May 2010, the total value of the loans of the whole banking system for real estate sector reached 192.000 billion VND, equivalent to 10.04% of the total value of loans to the whole economy[12]. More than 20 banks, mainly from Ho Chi Minh City, have the total value of real estate loans accounting for more than 20% of their total loan value. However, from February 2008, the banking system started to reduce loans for real estate due to the austerity policy to curb inflation, causing the lending activities reduced dramatically.

In these 2 years, the State Bank of Viet Nam has been imposing measures to control the growth rate of real-estate related loans. One of these measures is the set the maximum room for real estate loans of 12% of the outstanding loans. With these measures, commercial banks reduce providing loans for projects investment and increase loans for asset-backed consumer loans with collaterals. Although the interest rates are from 14% to 16% or negotiable rates, they still lower than the market interest rates, therefore real estate businesses still seek for bank loans. As a result, statistics show that bank loans accounts for more than 60% of the funding for real estate sector.

2. Corporate bonds*:*

In the context of decreasing loans from banking system, issuing corporate bond is a good choice which is attracting more real estate businesses. This method offers more advantages for the issuers, such as: long-tern fund mobilization from more diversified sources (investment funds, issuance companies, financial groups, real estate investors or from the companies' customers), flexible interest rate, flexible payment scheme, and so on.

[12] State Bank of Viet Nam

The corporate bond issuance started from late 2007 and continues to present. The issuances are mainly for the construction projects of apartments or office buildings. Most of the bonds issued offer the rate from 8.8% to 12% per year and are attached with the right to buy apartments after the projects finish with a 5% to 8% discount price. Therefore, the issuances have attracted great number of buyers so far. With corporate bonds, customers also have more choices, such as they can trade the bonds in the OTC market or get the refund of face value and interest if they don't want to buy the apartment. However, the issuing procedures also need to follow the regulation of Securities Law 2007, with the approval of the State Securities Commission (SSC).

Some examples of bond issues may include:

- Masan Investment Corp. issued VND 729 billion of bond for their projects in Ho Chi Minh City in 2007;

- Sacomreal Inc. issued VND 100 billion of bond for Phu Loi project in HCMC, with par value of VND 500 million, interest rate of 4.4%/6 months and a right to buy an apartment with 5% discount price;

- In March 2008, Sacomreal continued to offer VND 750 billion of bond for Phu My project in HCMC, with par value of VND 1.5 billion, interest rate of 12%/year and maturity of 8 months, and a right to buy an apartment with 8% discount price;

- Nhon Trach Joint Stock Company issued VND 1,000 billion of bond in 2010.

- Some of the businesses start to issue international transferable bond in US dollar denomination, such as Vincom Corporation with US$ 100 million and Kinh Bac Corporation with US$200 million of transferable bond[13].

[13] Viet Nam Finance 2009

3. Investment funds*:*

Several real estate investment funds have been established in Viet Nam recently. Ho Chi Minh City's Urban Investment and Development Fund (HIFU) is the first a state-owned fund established in 1997 to offer funds for development projects in HCMC. At the moment, HIFU also provides 5 to 10-year for real estate projects, however, this activity is still limited and not yet considered long-term investment scheme. Besides, there are also some funds like HCMC Housing Funds (HOF) established in 2004 also providing funds for low-income housing projects. In recent years, foreign investment funds have appeared to invest in the real estate market, including Indochina Capital with Indochina Land Holdings 1 (42 million USD) in 2005, Indochina Land Holdings 2 (265 million USD) in 2006; VinaCapital with VinaLand (595 million USD) in 2006. Most recent, Singapore top's real estate investment company, Pacific Star and Alony Hetz from Israel established a 200-million dollar joint-venture real estate investment fund in Viet Nam.

4. Joint-ventures with foreign partners*:*

In the seek of more funds for their projects, real estate businesses started to set up joint-ventures with foreign partners. This trend will bring them rich sources of funds and, at the same time, new managerial experience. As a common practice, the local businesses will be in charge of legal procedures, project setting and clearance procedures; the foreign partners will be in charge of carry out and run the project. When setting up joint-ventures with foreign partners, the local businesses are usually big, famous and capable ones. Examples of joint-ventures include Thu Duc House-Daewoo, Sadeco-CapitalLand, ThienDuc, Phu Gia-CapitalLand, Tien Phuoc-Keppel Land.

5. Payments from customers*:*

Customers who want to own apartments after the projects finished may take part in real estate projects by paying deposits before the projects starts and monthly payments until the projects finished. According to statistics, the majority of funds for real estate projects in Viet Nam is from bank loans (about 60%), 17% from the business themselves and 23% from their customers. However, there still exists a fact that the customers also borrow from banks to contribute to real estate projects. Commercial banks also collaborate with big and famous real estate companies in providing these companies' customers, who have sound and transparent financial status with loans. Therefore, large portions of payments from customers also originate from bank loans. In other words, financial sources for real estate businesses are too much dependent from banking system. This tie will cause many difficulties for real estate businesses when the banking system starts to reduce their loans or increase lending interest rates.

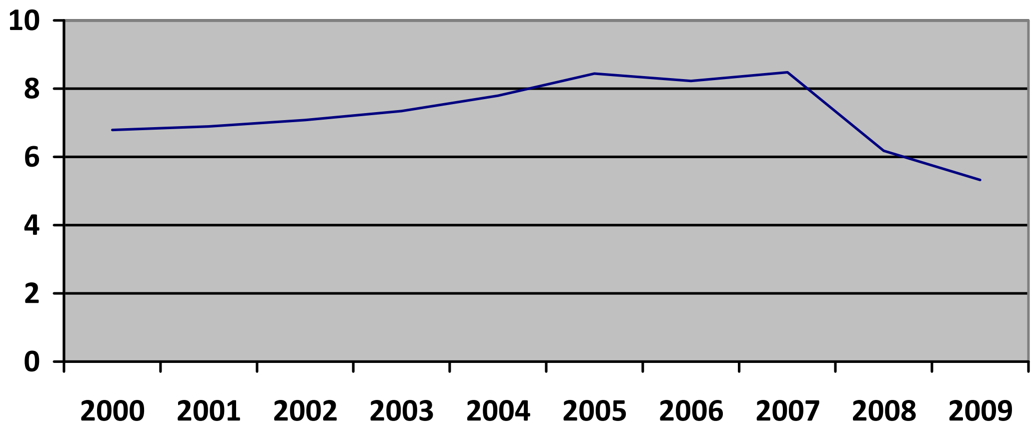
IV. POLICY RECOMMENDATIONS TO DEVELOP REITS IN VIET NAM:

A. Favorable conditions for establishing REITs in Viet Nam:

As analyzed in the previous parts of current situation in the real estate market in Viet Nam, we can see some favorable conditions for establishing REITs in Viet Nam. These conditions include:

1. Viet Nam is a fast developing and potential market: After 20 years of renovation policy, Viet Nam is considered as the fastest growing economy of ASEAN. The Viet Nam's economy has achieved steady and satisfactory growth results year on year and is ranked as the 2nd fastest growing economy in South East Asia. GDP achieved growth at 8.48% in 2007, 6.18% in 2008 and 5.32% in 2009[14].

Figure 16: GDP growth rate of Viet Nam from 2000 to 2009



Source: Viet Nam Finance 2009

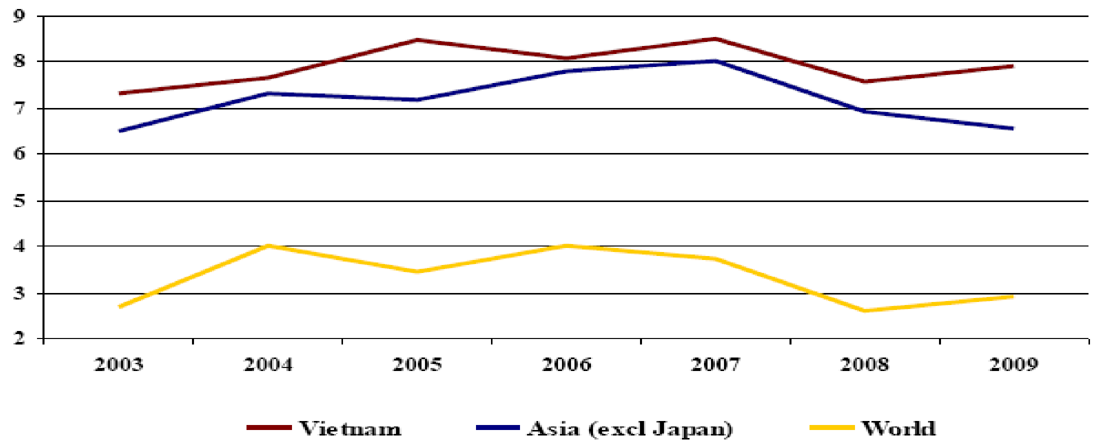
FDI to Viet Nam continued to make a record with actual disbursed amount of US$8.03 billion in 2007, and US$ 10 in 2009 mostly for industrials and real estate. FDI commitments also reach new height with US$71.7 billion in 2008, compared to only US$12.0 billion of 2006[15]. Leading the investment opportunities are those in the industry, accounting for 33% of the total registered capital. Real estate ranks the second accounting for 26% and tourism and hotel projects ranks the third accounting for 11% in 2007. All the analysis about

[14] Viet Nam Finance 2009
[15] Viet Nam Finance 2009

perspectives of Viet Nam economy, except for rising inflation of 12.63% in 2007, has made the world view Viet Nam as the next Asian Tiger.

With WTO accession, Viet Nam is an attractive emerging market, in particular the property sector. Viet Nam became the dream destination for investments, tourism development, and all sources of capital inflow were trying to get a piece of the action. More investments are needed for development projects and infrastructure building, not only in major cities but also in emerging cities throughout the country.

Figure 17: Real GDP Growth (% change)



Source: Vinchi Capital Report, August 2008

2. The legal framework for real estate sector has been gradually completed in recent years: The renovation policy applied in Viet Nam since 1986 have led to major reforms in the economic management mechanism. Relating to real estate market, there have been several Laws in-acted: Law on Foreign Investment (2005), Law on Land (2006), Law on Housing (2006), Law on Real Estate Transaction (2007), Government Decree No. 71/2010/ND-CP giving details on implementation of Law on Housing, Government Decree No. 84/2008/ND-CP applying on foreign investors renting land for 70 years and other incentive policies from the Government.

The completion of legal framework also shows remarkable efforts from the

Government in making improvement for the legal framework to stabilize and develop the real estate market, making this market more transparent, appropriate and facilitate trading activities.

3. Demand in every sector of real estate market is growing rapidly: This demand comes from not only institutional investors and businesses but also from individual investors and normal residents in the country. From 2007, the Viet Nam's property market has growth outpacing supply leaving unmet demand. As such there is an unavoidable market fever with prices climbing up in the market. High economic growth, WTO access, improved living standards, and higher incomes with greater amounts of disposable income have created investment opportunities for both foreign and local investors to meet the huge demand on property and to participate in the overall growth of the property markets (CBRE, 2008)[16].

Another interesting fact is that Viet Nam has the young population with about 85 million people; medium age of just 25 and 65% of its population is in the labor force. More surprisingly, the rate of shopping center per capita and rate of office area per total number of service labor are very low. It is estimated that the demand for accommodation keeps increasing, every year, Viet Nam's population has 1.1million people more. Supposing that one person needs 9-10 sq m of accommodation, Viet Nam will need several millions sq m more every year, while the supply just can meet half of the demand. In addition, the increasingly high demand for offices is caused by the increase in foreign investment in Viet Nam. Therefore, real estate has become the first goal of many international financial institutions when they seek investment opportunities in Viet Nam. All the facts mean that the demand for all kinds of real estate (including office buildings, shopping centers and residential apartments) will remain very high and increasing.

---

[16] CBRE press release on "Viet Nam Property Market - Review 2007 and Fearless Forecast for 2008", February, 2008

4. Demand for funds from real estate businesses is apparent and urgent: As analyzed in the above part, most of the real estate businesses nowadays are facing with great demand for funds. According to statistics from CBRE Viet Nam, from 2008 to 2010, the demand of investment fund in HCMC alone is about VND189.130 billion, while the businesses themselves can afford only VND24.065 billion (accounting for 12.72%). Furthermore, more than 60% of the funds for real estate projects are from bank loans, therefore, they are too dependent on the banking systems. In the context of the portion of bad loans and non-performing loans keeps increasing, the banks become more cautious and refuse more real estate projects. Issuing corporate bond is one of the ways out to solve the problem of fund shortage. However, in order to issue corporate bonds, the issuers have to follow regulations set by the SSC in terms of fund using methods, financial transparency and feasibility projects… With REIT structure, this problem can be solved more easily and reduce the burden for the businesses, because REIT structure allows small and individual to take part in real estate market by owning stocks and helps businesses mobilize funds. Because of this, there are rooms for REITs to operate in Viet Nam and the establishment of REITs becomes a real need.

5. The stock market has been stabilizing and developing: The Viet Nam's stock market was established in 2000 with the opening of the first securities trading center (STC) in HCMC then in Ha Noi. After 10 years of operation, it has achieved significant developments and played very important role in the economy. At the end of 2009, the market capitalization reached VND695 trillion, accounting for 48% GDP, increased by 2.5 times compared with 2008. If including the unofficial market with thousands of SOEs which have been equitized, the market capitalization would be from 70 to 80% of GDP. Thus the stock market became important source of fund for development with the total mobilized fund in 2009 of VND 33.02 trillion[17].

[17] Viet Nam Finance 2009

Table 10: Fund mobilization through securities market from 2007-2009 (VND million)

Year	Stock Issuance	IPO	Bond auction	Total
2007	55,846	49,953	21,466	**127,265**
2008	14,341	7,809	7,008	**29,158**
2009	21,725	2,124	9,178	**33,027**

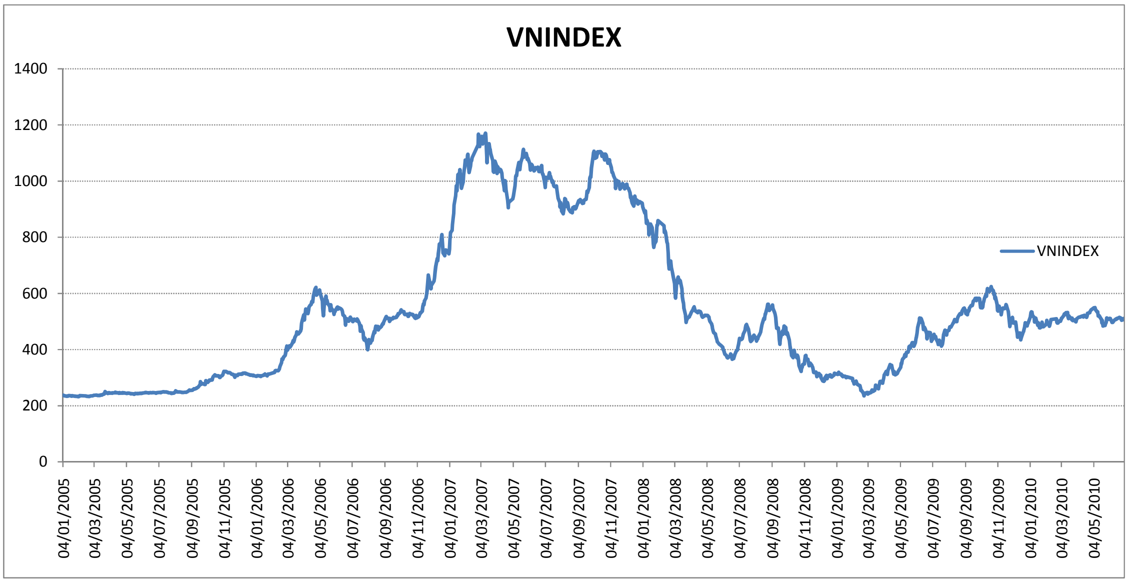
Source: SSC 2009 Annual Report

At present, the market capital surges thanks to significant number of new companies listed. There have been 231 listed companies in the Ho Chi Minh Stock Exchange (HOSE) and 290 listed in Hanoi Stock Exchange (HNX). The number of trading accounts was over 1 million; number of securities companies was 105 and 46 fund management companies. At present, there have been over 13,000 accounts from foreign investors, double increase compared with 2007[18].

In terms of regulatory framework, the stock market in Viet Nam has achieved significant progress towards best practice regulation. At present, the State Securities Commission (SSC) is responsible for regulating the country's securities market under the Ministry of Finance. The regulatory framework for capital market in Viet Nam mainly comprises of Securities Law of 2007, Decrees and Decisions from the Government on details of Securities Law. This Law expands the purview to both listed and unlisted securities, clarifies public offering procedures, and incorporates basic provision of central depository, investment funds, investment advisory, self-regulatory organizations and so on. However, after 3 year of enactment, the Law is now under adjustments on public and private offerings, intermediary establishment criteria, new products and foreign listing and offerings. These adjustments will give the market sound backgrounds to operate efficiently, transparently and fairly.

[18] SSC 2009 Annual Report

Figure 18: VN-Index performance (2005-2010)



Source: Ho Chi Minh City Stock Exchange (HOSE)

6. The "alike" REIT structure has been emerged in Viet Nam:

As of end of 2009, among 521 of listed companies in Ho Chi Minh City Stock Exchange (HOSE) and Hanoi Stock Exchange (HNX), 47 companies are from construction and real estate sectors, among which 11 listed companies are real estate businesses. In 2009, real estate shares were regarded as hot and the most stable shares in the context of down-turn market. Since mid 2007, these shares were hunting by investors both in the exchanges and in OTC market. The reason is the "fever" of real estate after a long time of being frozen, the real estate businesses start to grow dramatically, high and stable return, and great potential. P/E ratio of real estate listed companies are usually the highest in the market, around 23.5 in 2009 compared with the average P/E of the market of 16. The P/B ratio was 2.95 in 2009, the growth rate of revenue and profit were 55% and 28% respectively[19].

These listed company, however, are normal public companies without any special scheme for income allocation like REITs (REITs distribute at least 95% of its income as

[19] Saigon Securities Incorporation (SSI), "Industry Prospect", March 2010

dividends for shareholders), although their average dividend ratio are quite high last year. The funds they mobilize through offerings are normally used to invest in real estate projects like office buildings, residential apartments, resorts. The investment ratios vary from company. Among listed companies in construction and real estate sector, Ho Chi Minh Infrastructure Investment Joint-stock Company (CII) - a joint-stock company established under Law on Enterprise - is the most alike REIT. This company issued shares to the public to buy the right to collect toll fees in 2 highways in 10 years. The company had to refund for the city's budget within 18 months. The income from toll fees accounted for more than 75% of the total income of the company and is required to distribute to shareholders. However, the ratio of paid-out dividend form 2002 to 2006 has been quite low (average of 13%). Since 2006, CII has been listed in HOSE, therefore, CII shareholders can buy or sell shares easily. Although there hasn't been concrete regulation on REITs so far, incentive policies from the HCMC authority have helped CII operate as a REIT structure.

Other favorable conditions for establishing REITs in Viet Nam may include:

- The fund management sector has been developing making the investor acquainted with fund structure. Since the first fund management company established in 2003, up to May 2010, there are 46 fund management companies, managing about VND72 trillion (about US$3.8 billion), accounting for 10% the total market capitalization. In 2002, the first fund was established in Viet Nam, but at the end of 2009, there were 20 funds, of which 4 are listed funds in the HOSE and 16 member funds[20]. The establishment and operations of funds and fund management companies have been regulated by the Securities Law and other Decrees. However, these closed-end funds can only invest 10% of their total asset into real estate, they focus their allocation in shares in exchanges and even OTC market meanwhile REIT structure require that most of the asset should be invested in real estate (at least 75% as

[20] SSC 2009 Annual Report

the cases of other Asian countries). Moreover, these funds are less active in taking part in management activities of the companies they invest in, and these funds don't have to pay tax on their income, their investors do pay instead. With these features, the fund structure in Viet Nam has already attracted lots of individual investors to take part in.

- Private saving behavior has been changing dramatically in recent year. The amount of private/household savings, in fact, is really remarkable but not much of it is invested in real estate market. The reason is the real estate costs lots of money while each individual, with their saving sometimes cannot afford. According to Ho Chi Minh City Economics Institute's research in 2005, the private saving structure changed as followed: cash holding reduced from 50% to 40%, gold savings reduced from 35 to 13%, bank deposits increased from 3% to 10%, investments in real estate increased to 32%. After the boom of stock market in recent years, more and more funds from private saving pour into this market. During this boom, benefits from stock market are partially used to buy real estate. However, when the stock market declines, this channel of funds reduced substantially.

Table 11: Investment categories in 2007

Categories	**Vn-Express**	**VN-Economy**
1. Securities	44.1%	46.6%
2. Property	36.3%	21.9%
3. Establishing companies	8%	10.7%
4. Gold	6.1%	9.8%
5. Savings in banks	4.4%	5.3%
6. Others	1.1%	5.7%

Source: VN-Express and VN-Economy, Viet Nam Financial Review, No.2, May 2007

B. Recommendations to develop REITs in Viet Nam:

From the study of current situation of the real estate market and other conditions for establishing REITs in Viet Nam, the author comes up with following recommendations:

1. Recommendation about model of REITs:

With the current situation and characteristics of the real estate market in Viet Nam, it is necessary to develop REITs structure to mobilize more funds for the market. Individual with small and limited sources of funds can also take part in property businesses. As REITs can help both businesses in channeling funds for their projects and also bring about various benefits for investors, in the initial stage, *equity REITs* are the most suitable. Each investor when buys the REIT shares will be the owners of parts of REITs' assets. These REITs can be either public or private REITs. For the legal status of REITs, *corporate structure* should be adopted for simplification. Equity REITs can be formed as corporations according to the Law on Enterprises, Law on Real Estate Transaction, Law on Investment and other related legal documents.

- For public REITs, the shares can be sold to institutional or individual investors, the proceeds then can be use to buy the property and rent it. The income of REITs will come from rents, and then distributed at least 90% back to their shareholders. These REITs can also hire other asset managers in their renting activities. Being a public REITs, they can list they share on the stock exchanges upon satisfying listing requirements and approval of SSC. Therefore, public REITs can offer investors high liquidity and transparency because they have to follow disclosure and other financial, managerial requirements.

- For private REITs: They are very similar to public REITs except their listing status but private REITs can be public if they launch IPO. However, because they are not listed, they are not subjects to such requirements.

At later period, when the public are more familiar with this public-equity REIT model, REITs can be formed as mutual closed-end funds. REITs as mutual funds require the participation of more entities, such as: Regulatory agency in charged of funds and fund management companies (SSC); Fund management companies, supervisory banks, asset management companies, advisory companies, auditors among others. Being a fund, REITs and Real Estate Investment Management Company (REIMC) would be regulated by SSC and comply with the current regulations, following which:

- At least 50% of the trustees of REIT and directors of REIMC are required to be persons who are independent and not associated with persons having control over REIT or REIMC.

- These REITs are required to invest only in income-generating real estate. The management of REIT and REIMC is required to be independent of each other.

- These organizations would be rated by a credit rating agency by the time of launching.

- Certificates of REITs can be placed in the Stock Exchanges through a public offering, or placed through private offerings. To date, there have been no specific rules for the issuance in a private or public offering of certificates specifically related to REITS; therefore, any issuance of such instruments would have to be made following the general rules currently in force applicable to public or private issuance of trust certificates in Viet Nam.

2. Legal framework:

As a new structure in real estate business, REITs need a special legal framework. In other countries where REITs have been adopting, this legal framework includes a system of laws. Because REITs, by their nature, were designed to establish tax-favored investment measures for small investors. In order to enable small investors to invest in large scale and high income generating real estate properties, it was necessary to pool capital of many participants that can be put into commercial properties with high return and low risk. Ultimately, the public policy goal was to allow the people with average income to benefit from real estate investment (Lim 2006). In each country where REITs are accepted, special law on REITs was also in-acted. For example, Investment Trust Law (2000) of Japan, Tax Reform Act of the U.S which has been revised many times, Real Estate Investment Trust Act (2001) of Korea. Together with these laws, regulation on tax, REIT listings are also issued.

In case of Viet Nam, the current regulations on funds and fund management companies cannot be applied to REITs. These funds operate under the Securities Law; they cannot invest more than 10% of their assets into real estate asset. In the long run, to apply REIT structure, it is necessary to issue separate *Law on REIT*. Besides, other *regulations on tax*, *securitization*, *REIT stock listing* and so on are also needed. Current legal documents on land-use right, real estate investment and businesses, public companies and so on are to be adjusted and supplemented because there still exists differences in existing documents. To do this, the cooperation between ministries, including, Ministry of Natural Resources and Environment, Ministry of Construction, Ministry of Planning and Investment, Ministry of Finance is needed.

A concrete legal framework for the establishment and operation of REITs are very important, especially the regulation of taxation. On the one hand, it helps the Government better manage a new form of businesses and ensure the efficiency and transparency for the market, on the other hand, it helps prevent possible market failure and protect the small investors.

3. Real estate market management:

REITs are the financial tools to connect real estate market with the financial market which enable individuals to take part in both markets. When the real estate market performs efficiently, it's a favorable condition for REITs to exist because REITs are also high-end products of a management mechanism. Therefore, in order to create REITs, real estate market itself should be better managed because well-functioning real estate market is the pre-condition for REITs.

As analyzed in previous parts about current situation of the real estate in Viet Nam, the problem of demand and supply mismatch leads to high rents, infrastructure, transportation, project approach, procedure problems for foreign investors and capital problems for domestic investors are among the things to be improved (CBRE, 2008). In the long run, to stabilize and develop the real estate market, solutions should include:

- Adjust land and housing tax to reduce speculation, reduce transfer tax to 1% but increase tax for the case of transfer within 2 years after buying, adjust the personal income tax from property transfer.

- To ease the tensed supply of real estate market, it's also necessary to increase the land fund for construction of housing and buildings and speed up the pace of on-going projects;

- Reform in administrative procedures (such as land clearing and project approval) to shorten the non-performing time;

- Enhance the publicity and transparency of land planning and project allocations for foreign and domestic investors, thus enhancing the fair competition;

- Multiplying the model of real estate trading floors (a kind of official real estate market) to create a fair playground for investors, traders and consumers.

- Building the information system of the real estate market, including the real estate market index (REMI) to provide all the participants with enough and updated information about the market.

- In terms of financing, real estate industry needs huge amount of funds and other resources to run and develop. However, the real estate industry is now heavily dependent on the banking system and at the same time, the industry also faces with lots of difficulties in approaching banks loans. Hence, it's necessary to adjust the ratio of real estate loans over the total outstanding loans, especially the lending conditions. The banks themselves will face with credit risk if they mobilize short-term fund and offer loans for longer maturity. Therefore, the mobilizing strategy of banks will have to shift to longer sources.

- Establish the mortgage market for real estate loans: At the moment, non-performing loans of commercial banks can only be traded through the National Debt Collecting Agency (which established in 2004 and belongs to the Ministry of Finance). By buying non-performing loans from commercial banks, this Agency helps turn the dead loans into active money for the economy. Besides, this Agency can also pool large loans to issue bonds. However, the operating scope of this Agency is still limited within non-performing loans of commercial banks, not the long term or asset-backed loans. Recently, some Asset Management Agencies (subsidiaries of commercial banks) has started to buy long-term and asset-backed loans, but this practice has not been popular yet.

4. Financial market development:

a. Adopt securitization technique: Together with Tax policy, other policies regarding to financial market development should be considered. At present, regulations on trading of fund units in the stock exchanges and trading of shares from non-listed, public companies in the OCT market are available. However, to adopt REITs as public companies and REIT stocks as component of the market, the *securitization* technique should be applied in the first place.

Although securitization has been in the financial world for a while, this technique has not been applied in Viet Nam's financial market. Securitization is the transformation of illiquid assets into a security, an instrument that is issued and can be traded in the capital market. Assets that have been transformed in this technique include residential mortgages, auto loans, credit card receivables, leases and utility payments. Asset securitization techniques are being embraced by a number of Asian countries seeking to promote home ownership, to finance infrastructure growth, and to develop their domestic capital market In terms of macroeconomics management, securitization helps (1) promote the development and enhance liquidity for the financial market, increase the supply for the market because securitization is the combination between financial and credit markets, therefore more high-quality securities are added to fixed-income market; (2) increase the source of funds for rapidly growing, capital-constrained banks, financial companies whose expansion depends on the extension of credit to their customers; (3) expand source of financing for residential home ownership and provide the financing for infrastructure projects; and (4) promote the reform process of financial and banking system because in order to apply the techniques, commercial banks need to restructure their assets and liquidity and manage their balance sheet; For investor, securitized products appear to be attractive investment opportunities because of (1) superior return, (2) greater liquidity, (3) diversification by participating in different class of assets, (4) mitigation of event risk like takeover, restructurings and other events.

Asset backed securities, mortgage-baked securities (MBS) and collateralized debt obligations (CDO- a structured financial products that securitizes a diversified pool of assets into multiple classes of notes issued by a special purpose vehicle company, SPV from the cash flow generated by those assets (Simons and Simons, 2007) are among securitized products. REITs, however, are equity products rather than those above. Since REITs can securitize real estates and distribute them to the general public, they were expected to promote the disposal of real estate for restructuring. Especially, REITs can divide real estates into small units and give them liquidity through listing, thus, it provides opportunity for small investors to invest in real estate (Park, 2006). Therefore, REITs stocks are special, because it's the combination between stock investment and real estate investment, backed by the value of real estate and at the same time bring about the value from the stock price appreciation without the direct and full ownership of that real estate.

b. Adjust and complete functions of related agencies:

At present, SSC is in charged of financial market regulation. Main functions of SSC include (1) designing and submitting to the Finance Minister to issue or issue related legal documents on securities and securities markets, strategies, roadmaps, policies, long term and annual plans; (2) Implementing these documents after their ratification; (3) Setting specialized standards, procedures and processes, economic and technical specifications to be applied in organizations and units under its management, as stipulated by applicable laws and decided by the Minister of Finance; (4) Issuing, extending, suspending or revoking certificates of registration of securities issuance, trading, listing, certificates of securities business, certificates of securities practices and services, as stipulated by applicable laws; (5) Managing activities of Stock Exchanges, Center for Securities Depository, Registration, Clearing and Settlement and other subordinated organizations; suspend their activities in case of violating the law and investors' right and interests; among others[21].

Developing new products for the financial market is also under the responsibility of SSC. Recently, SSC is researching and proposing the application of new products, including

[21] www.ssc.gov.vn

derivatives (futures, options, swaps). This is for the future development of the securities market. In terms of REIT, because it's the connection between real estate market and financial market, SSC has no authority in managing the operation of the real estate market. Instead, Ministry of Construction, Ministry of Science, Technology and Environment are in charged of national resources, land and housing. Ministry of Finance (Taxation Agency, to be exact) is in charged of all kind of taxation policies and Ministry of Planning and Investment (MPI) is in charged of companies establishment and investment… Therefore, to apply REITs, SSC needs to get involved. REITs can be a public company when it first established in Viet Nam, and later on, can be organized as funds. For that, SSC should be added new authority over establishing REITs.

c. Other measures for financial market development:

- Upgrading the trading, clearing and settlement system for the new products: The trading system now is available for listed shares, bonds, units of fund certificates. At the moment, HOSE, the official stock exchange, hosts all listed shares of companies with the paid-in capital from VND80 billion and fund units, while HNX is the specific trading floor for bonds, shares of companies with the paid-in capital of less than VND80 billion and unlisted shares (OTC market). Therefore, all REITs stocks or REITs certificates will be registered and listed in HOSE. Then the trading, clearing and settlement system of HOSE and Depository Center should be upgraded for a larger number of trading.

- Establish the credit rating system: At the moment, there has been no credit rating agency in Viet Nam. This rating system will help ensure the transparency of the operation of REITs as mutual funds, especially in the public offering of the fund's units, thus also ensure the investor protection.

- Enhance the oversight system from the financial market regulator (SSC) over all the procedures of REITs formation, public offering, units/shares issuing and allotment, listing and trading of REITs units/shares;

- Promote the knowledge sharing programs with other legislations which have applied REIT structure and have a sound legal system for REITs to learn and exchange ideas of REITs;

- Create investor education programs relating to REITs to help them understand about this structure and know how to take advantages of REITs in creating benefits for themselves. Also needed are the training programs for market regulators, practitioners and other market participants about REITs.

CONCLUSION

The rapid growth of Viet Nam's economy in recent years has created favorable conditions for further development of the real estate market. Given the important role of this market plays in the economy, measures to manage, stabilize and develop this market have been carefully taking under consideration by policy makers and economic managers.

Viet Nam's real estate market as a whole has continued to perform relatively well and more importantly, continues to attract more and more investment from both international and local investors. However, there are still signs of imbalance and distortions in terms of demand-supply relation and financing for real estate projects. One of the solutions proposed by this thesis is to establish REITs in Viet Nam. With REITs, two questions raised from the beginning of this thesis can be answered, because:

(1) REITs can be the tools to mobilize long-term funds from potential sources in the society for real estate businesses, and

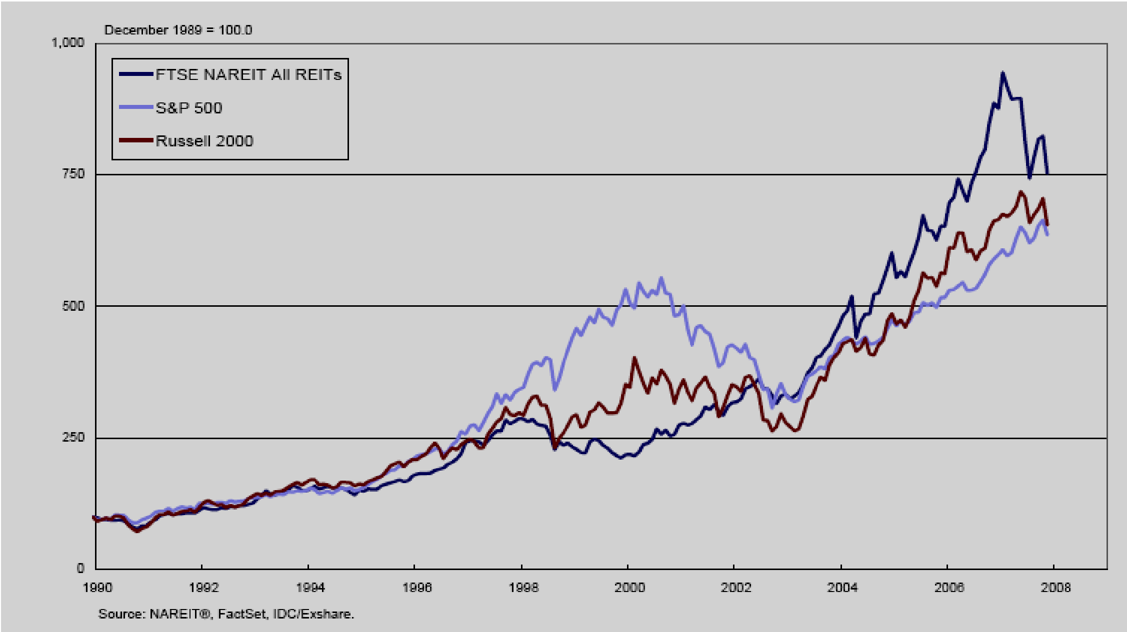
(2) REITs can help the general public to take part in real estate market to get high return, diversification, liquidity and other investment benefits.

As for the case of Viet Nam, the current situation of the real estate market and other favorable condition for establishing REITs have been analyzed and recommendations have been proposed. These recommendations include the model of REITs, solutions to better manage the real estate market and solutions to develop the financial markets. Through the thesis, readers can help better view of not only the backgrounds of REITs but also other aspects of the Viet Nam's market. However, REITs in general are high-end products of a well-managed real estate market in connection with developed financial markets, it is not an easy job to establish in short time. Efforts from the Government, policymakers and other related ministries and organizations are needed. Opportunities for REITs to find a footing in Viet Nam are apparent, and abundant of steps are to be taken in order to achieve the goal of efficient REIT market. The author understands that more aspects should be looked into for the establishment of REITs in Viet Nam, such as detailed legal regulations, tax systems, other operational and managerial requirements…

As a broader view, many Asian countries have been exploring the possibility of using REITs as a way to revitalize their real estate market. With the current developments of global and regional REIT markets, the REIT concept will grow and prosper in a world filled with new opportunities for real estate companies and their investors. However, the future success of REITs will depend primarily on how effective REIT managers are in adapting to changes in capital markets and finding new way to improve profitability from their direct and non-direct real estate investments. In fact, there are no entry barriers to forming a REIT. When the market conditions are right, new REITs will flood the market place, as was made evident by their explosive growth in the 1990s. Given that there are still many unsecuritized properties available in the real estate market, REIT will surely thrive in the near future.

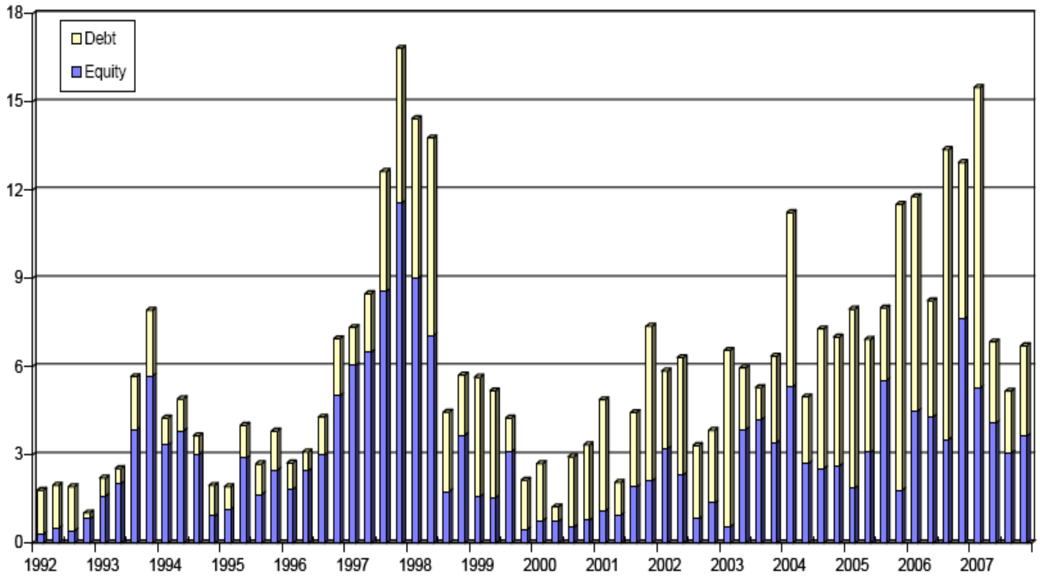
APPENDICES

Appendix 1: Major Stock Total Return Indexes (End of month, December 1989 - December 2007)



Source: NAREIT Chart Book January 2008

Appendix 2: Securities Offerings by REITs (Quarterly, Q1.1992 - Q4.2007), billion dollars



Source: NAREIT Chart Book 2008

Appendix 3: Historical Offering of Securities by REITs (as of November 30.2007)

	Total		Initial Public Offering		Secondary Equity: Common Shares		Secondary Equity: Preferred Shares		Secondary Debt: Unsecured Debt		Secondary Debt: Secured Debt	
Period	Number	Capital Raised[1]	Number	Capital Raised[1]	Number	Capital Raised[1]	Number	Capital Raised[1]	Number	Capital Raised[1]	Number	Capital Raised[1]
Annual Totals (including current year to date)												
1999	205	17,214	2	292	29	1,966	71	4,478	69	7,951	34	2,526
2000	114	10,376	0	0	11	1,172	31	1,662	70	7,013	2	529
2001	127	18,752	0	0	58	4,204	21	1,878	44	9,895	4	2,775
2002	187	19,768	3	608	85	5,785	25	1,991	71	10,638	3	745
2003	228	25,562	8	2,646	82	5,471	64	5,192	68	10,894	6	1,358
2004	266	38,773	29	7,980	79	7,338	61	5,858	97	17,306	0	0
2005	259	38,179	11	3,789	71	8,521	36	3,095	105	16,330	36	5,758
2006	204	49,018	5	2,271	75	15,695	39	4,239	82	25,261	3	1,551
2007	127	35,651	4	1,820	54	11,474	26	4,202	43	18,155	0	0

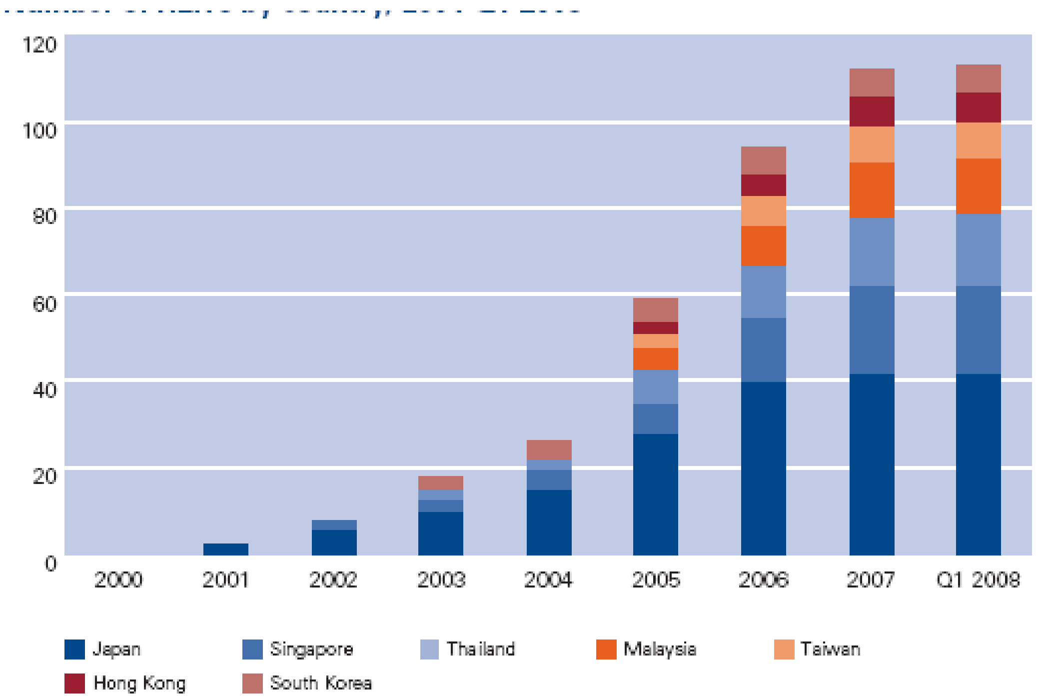
(1): In all cases, capital raised in million dollars. Source: NAREIT, REIT Watch December 2007

Appendix 4: Constituent companies in the FTSE NAREIT All REIT Index (By December 31 2007)

Types of REITs	Number	Capitalization (mil. of dollars)
1. Equity REITs:	**118**	**288,694.6**
- Industrial/Office:	27	
Office	15	
Industrial	7	
Mixed	5	
- Office/Retail:	28	
Shopping Center	15	
Regional Malls	8	
Free Standing	5	
- Residential:	21	
- Diversified:	9	
- Lodging/Resorts	11	
- Self-storage	4	
- Healthcare	11	
- Specialty	7	
2. Hybrid REITs	**5**	**4,260.3**
3. Mortgage REITs:	**29**	**19,054.1**
- Home Financing	13	
- Commercial Financing	16	
Total:	**152**	**112,009**

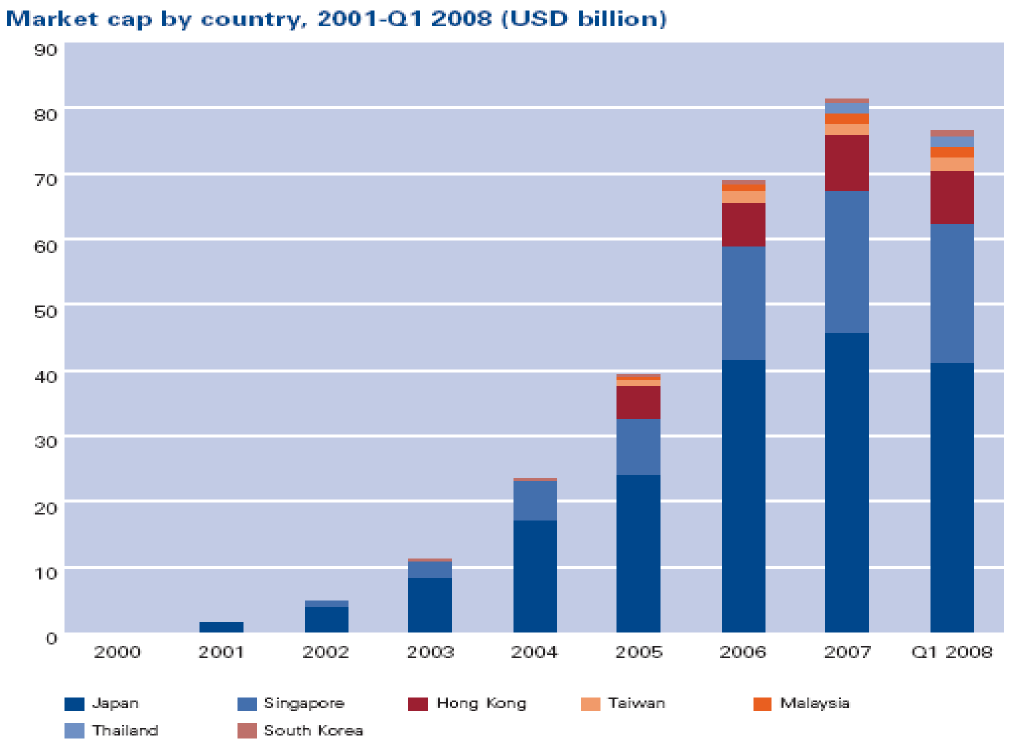
Source: NAREIT, REIT Watch December 2007

Appendix 5: Number of REITs by country, 2001-Q1.2008



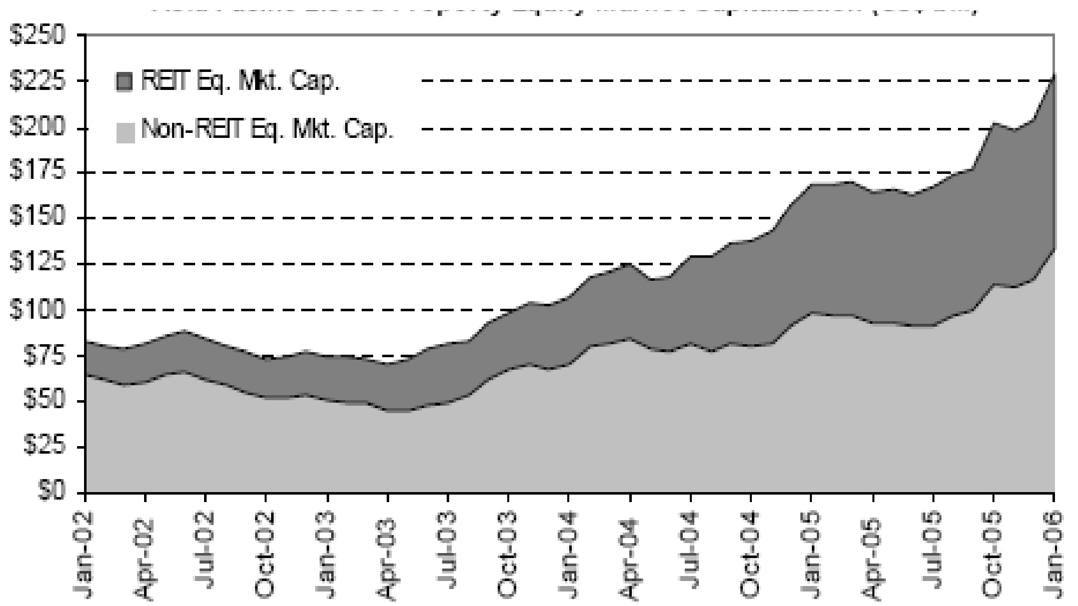
Source: Bloomberg, APREA

Appendix 6: Market Capitalization by country, 2001-Q1.2008



Source: Bloomberg, APREA

Appendix 7: Asia Pacific Listed Property Equity Market Capitalization



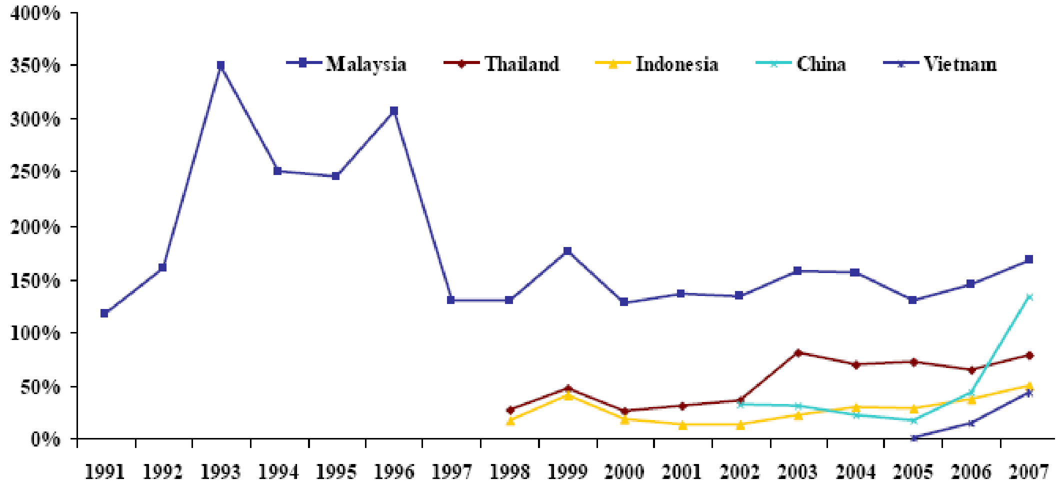
Source: S&P/Citigroup BMI Property Index (data through Jan. 1, 2006)

Appendix 8: Selected REITs regimes

Markets	Vehicles	Year introduced
Asia Pacific		
Australia	Listed Property Trusts (LPT)	1971
Hong Kong	Real Estate Investment Trusts (REIT)	2003
Japan	Japanese Real Estate Investment Trusts (J-REIT)	2000
South Korea	Korean REITs (K-REIT), Corporate Restructuring REITs (CR-REITs)	2001
Latin America		
Brazil	FII	1993
Mexico	Fibras	2004
Europe		
Belgium	SICAFI	1995
France	SIIC	2003
Italy	FII	1994
Luxemburg	FCP, SICAV, SICAF	1988
North America		
Canada	REIT	1993
US	REIT	1960

Source: Various sources

Appendix 9: Market Capitalization/Nominal GDP



Source: Economist Intelligence Unit.

Appendix 10: Country comparison table (2009)

Country	Market capitalization US$ millions	Total rate of return – one year (%)	Total rate of return – three years (%)	Weighted average dividend yield (%)
Australia	70,747	10.4	-25.0	9.7
Belgium	6,761	17.2	-2.4	1.4
Canada	20,610	56.2	-3.3	8.1
France	64,526	45.5	-9.6	0.2
Germany	713	45.5	N/A	*
Hong Kong	9,518	64.5	9.9	8.1
Japan	29,432	6.7	-19.4	6.9
Malaysia	1,542	38.6	10.2	3.7
Netherlands	11,234	40.9	-6.0	*
New Zealand	2,540	12.7	-4.9	8.4
Singapore	23,134	85.6	-4.2	8.9
South Africa	3,400	17.5	12.4	8.5
South Korea	132	28.4	12.1	8.4
Turkey	1,889	151.3	-1.8	*
United Kingdom	37,176	14.5	-26.3	4.6
United States	271,850	27.9	-14.2	5.6

Source: Ernst and Young, Global Real Estate Investment Trust Report 2010, 2010

BIBLIOGRAPHY

Brent W. Ambrose and Peter Linneman, *REIT Organizational Structure and Operating Characteristics,* Journal of Real Estate Research, May/June 2001.

CBRE Press release on "*Viet Nam Property Market - Review 2007 and Fearless Forecast for 2008",* February 2008.

CBRE, "*REITs around Asia*", 2006

CBRE, "*REITs around Asia, second half 2009*", 2009

City Group, *Sector Mapping - Global REITs strategy,* January 2006.

City Group, *Real Estate Handbook*, November 2006.

Deutsche Bank, "*Global Securitization and Structured Finance 2007",* Globe White Page Ltd., 2007.

Deutsche Bank Research, *Understanding Viet Nam - A look beyond the Facts and Figures,* July 2007.

Drs. M. van Eldik, *The emergence of REITs in Asia - Is Asia heading in the right directions?,* Master thesis submitted to Amsterdam School of Real Estate, MSRE 2003-3005.

Economics and Finance Institute, *Viet Nam Finance 2009,* Finance Press, 2010.

John A. Mullaney, REITs, *Building profits with Real Estate Investment Trusts,* John Wiley & Son, Inc., 1998.

KPMG, FTSE Group and APREA, *Real Estate Investment in Asia Pacific - Migrating Capital*, 2008.

Lee A Chilcote of Arter & Hadden LLP, *UPREITs, Down - REITs and Other REIT Vehicles: Should You Go Along for the Ride*? Internet, http://library.findlaw.com/.

Naosuke Fujita, Noriko Sakai, Kaori Nagakura, *Japan Real Estate Investment Trusts, Outlook and Opportunity,* Asia Law and Practice, June 2007.

NAREIT, REIT Watch - *A Monthly Statistical Report on the Real Estate Investment Trusts Industry*, December 2007.

NAREIT Chart Book 2008.

Park Won-Seok, *Characteristics of Korean REITs and Their Economic Impacts*, online, Internet (http://www.kreaa.org/AsRES/doc).

Phillip Corner, Marc Halle, "*Asian REITs: A New Dimension for Investors*", 2006.

Ralph L. Block, *Investing in REITs*, Bloomberg Press, 2002.

Ray A. Smith, *Steady Private REITs: An Attractive Alternative*, The Wall Street Journal Online, February 25, 2003.

Richard Imperiale, *Real Estate Investment Trusts - New Strategies for Portfolio Management*, John Wiley & Sons, Inc., 2002.

Richard T. Garrigan, John FC Parsons (Editor), *Real Estate Investment Trusts - Structure, Analysis and Strategy*, Mc Graw Hill, 1998.

Saigon Securities Incorporation (SSI), *Industry Propects*, March 2010.

Securities Commission of Viet Nam, *2009 Annual Report*.

Sing, Tien Foo, *Challenges Ahead for Singapore Real Estate Investment Trusts (S-REITs),* National University of Singapore, February, 2005.

Su Han Chan, John Erickson, Ko Wang, *Real Estate Investment Trust - Structure, Performance and investment opportunities*, Oxford University Press, 2003.

Susanne Ethridge Cannon and Stephen C. Vogt, *REITs and Their Management: An Analysis of organizational Structure, Performance and Management Compensation*, DePaul University, September, 1994.

Viet Nam Capital Market Review, Vol. 1, October 2007.

Viet Nam Financial Review, No. 02, May 2007.

Viet Nam Securities Review, Vol. 117, July 2008.

Vinchi Capital Report, August 2008, *If not now, then when*, Vinchi Capital

www.Investinreit.com

www.REIT.com

www.ssc.gov.vn