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SOLUTIONS TO HOUSING PROBLEMS FOR LOW-INCOME PEOPLE IN HO CHI MINH CITY

The process of globalization has created golden opportunities for the economies of developing countries to keep up with other countries. However, besides the positive effects, globalization has raised many implications; one of these emerging issues is the immigration process into big cities due to high demand of labor forces along with the process of urbanization at breakneck speed. Therefore, meeting the housing needs in the urban areas of the low income strata had become the new challenge for developing cities. This article refers to the solutions to housing problems for low-income people in Ho Chi Minh City.

1. ACTUAL SITUATION OF THE HOUSING OF LOW-INCOME PEOPLE IN HO CHI MINH CITY

Ho Chi Minh City is the most crowded city – as well as an important center of economics, culture, and education – in Vietnam. With an orientation to sustainable development, satisfying the housing needs has become a basic and urgent requirement. Including all non-registered residents, the actual population has surpassed 8 million people; the city is facing the typical problems of a large city with fast growing population. Ten years from 1999 to 2009, the population of the city increased by 2 086 185 people, an average increase of approximately 209 000 people per year, a growth rate of 3.53 percent per year, which accounts for 22 percent of the country's total increase in population during this period¹. The city has done great efforts to meet the housing targets for the urban strata, which can be clearly seen through data of *tables 1 and 2*.

Table 1: Area of City housing in each period

Period (year)	Population (1000 people)	Population growth rate (percent)	Floor area (million m ²)	Average area (m ² /head)
1985	3706.78	100.00	23.991	6.47
1995	4640.11	125.18	35.035	7.55
2000	5248.70	113.11	60.711	11.57
2005	6239.94	108.18	64.270	10.30
2007	6450.94	117.38	78.550	11.81
2009	6810.46	105.99	87.930	12.91

Source: HCM City Construction Department

¹ Data from: Ho Chi Minh City Institute For Development Studies

Table 2: Status of housing development over the years in Ho Chi Minh City

		Unit	1985	1995	2000	2005	2007	2009
Population		1.000 people	3706.78	4640.11	5248.70	6239.94	6450.94	6810.46
Floor area		million m ²	23.991	35.035	60.711	64.27	78.55	87.93
Average area		m ² /head	6.47	7.55	11.57	10.3	11.81	12.91
Housing structures	Villa	percent	0.5	0.9	1.1	1.9	2.1	4.2
	Permanent structures	percent	15.3	13.9	19.1	33.1	41.9	67.8
	Semi-permanent structures	percent	83.2	85.2	79.8	65.0	56.0	28.0

Source: HCM City Construction Department

Although the proportion of permanent houses had steadily increased, a large number of low-income residents are still having to accommodate in semi-permanent or temporarily built houses, facing difficulties of seeking appropriate housing. In Vietnam – as well as in other countries – the low-income people are the people enjoying only very few benefits from the results of economic growth, but having to face the consequences of economic recession and inflation. The report of the United Nations Development Programme (UNDP) in 2009 on social security in Vietnam showed that 20 percent of households in the richest group received nearly 40 percent of social benefits, while the poorest ones enjoyed only 7 percent.

Table 3: Distribution of per capita income of the city per quintiles in 2008

Group of living rate	Average income (USD/person/month)
Poor	40.0
Under average	60.7
Average	79.6
Above average	106.3
Rich	252.3

Source: Ho Chi Minh City Institute for Development Studies

According to the above statistics, the proportion of the average or under average income takes up to 60 percent. With this income, one can hardly own a house without support from the government and social organizations. In recent years, the city has conducted many activities to create housing.

According to the HCM City Department of Finance, the city had conducted 721 projects between 1998 and 2006, clearing more than 46 thousand households (of which approximately 31 thousand households received compensation for their self-accommodation, while 15 thousand households required houses for resettle-

ment). By 2006, the city had only 7,167 households acquiring resettlement accommodation, more than 5,744 households lived in temporary housing areas for years. Each year the city spends billions of VND for temporary housing renting. According to the Management Board of industrial zones (IZ) and export processing zones (EPZ) of Ho Chi Minh City, more than 160 thousand people worked in 15 industrial zones in 2006. According to the statistics, 70 percent of them came from other provinces having high demand for accommodation. IZ and EPZ supplied only about 5 percent of the total demand; the rest accommodation-demand had to be self-managed. In addition to that, the city also has more than 200 thousand university and college students, but the dormitories can only meet 20 percent of the demand. Thousands of students from different provinces during the academic year and 1.5 million immigrants with temporary residence registration are also in the need of accommodation.

From 2000 to 2006, the city has allocated or leased land to 2 111 projects with a total area of 12 980 hectares (almost equal to the total area of 12 districts), including 500 housing projects in the area of 5 000 ha.² However, there was still a shortage of accommodation for students and workers. After a decision of the government, a number of mechanisms and policies for housing development for low-income people in urban areas had been issued, the city has implemented a series of housing projects. In 2009, six housing projects for low-income people were carried out, including two projects by the Saigon Real Estate Cooperation as the investor of the condominiums in An Suong, Dong Hung Thuan Ward, District 12 (176 units) and condominiums 157/R8 Tô Hien Thanh Street, District 10 (114 units). Four other projects included the project in Thanh Xuan Ward (District 12) by the Hoa Binh Joint Stock Investment Corporation, in Hoc Mon district by Minh Thanh Company; 1 hectare project in Binh Chieu (Thu Duc) by the Construction Corporation No 5 and 3 ha project in Truong Tho Ward (Thu Duc) by Chuong Duong Joint Stock Company. Beside the six above mentioned projects, more than 100 projects from other enterprises have been applying for registration in order to participate in housing program for low-income people.³

In early 2010, a series of average and low-price housing projects have been started, such as apartment buildings for low-income people by Hai Ha company with two 20-storey apartment blocks of 180 units ; the low price housing block Binh Tri Dong B by the Hai Thanh company and Xuan Mai Vinaconex with three 12-storey blocks of 352 apartments with room areas starting from 45.9 to 67.3 m²; an average and low price apartment project in Nha Be district by the Anh Tuan Construction and Trade Company Limited. The An Nhan Real Estate joint stock company invested in housing construction for low-income people in Vinh Loc A; Binh Chanh Construction Investment Joint Stock Company constructed the Phong Phu 2 residential area on an area of 133 ha. By the end of 2010 in the HCM City, 8 300 units of social housing, equivalent to more than 1.2 million m² of floor area were built.

² Data from HCM City Construction Department.

³ Data from HCM City Construction Department.

2. THE DIFFICULTIES OF ENTERPRISES WHEN INVESTING IN HOUSING PROJECTS FOR LOW-INCOME PEOPLE

Although the demand for low price houses is very high, enterprises are not really interested in this segment, mainly due to the following reasons:

- Constraints of investment procedures – The investors have to spend much time and effort to overcome different procedures (architecture-planning, fire safety, environment, traffic safety corridor, electricity net, water supply, land allocation procedures, certification of land usage rights etc.) Stretched time is a main reason that increase the production cost of the projects much higher than originally expected.
- Difficulty in finding clean (compensation free), cheap land – Finding an area of clean land in urban areas is truly a big challenge. At present, due to the limitation of land inside Ho Chi Minh City, businesses must seek clean land in suburban districts such as Hoc Mon, Nha Be, Cu Chi. In addition to that land prices have gone up, especially after the implementation of Decree 69/2009/ND-CP containing additional regulations on land use planning, land acquisition, compensation, support, and re-settlements.

To solve these problems, the city implemented a number of specific measures.

In June 2008, the People's Committee decided to withdraw land from state-owned land. Accordingly, three areas of land in Ward 14, Tan Binh; Thao Dien Ward, District 2 and the land in Phu My Ward, District 7 were used to fund housing construction to meet the needs of social housing. According to the City Centre Development, these are of a total area of 35.000 m². In addition to that, the City People's Committee decided on the disposal of recovered land in order to invest in building social housing. Besides the above mentioned examples, the city also recovered six additional land located in the city scattered from the inner city to suburban districts such as 1, 3, Binh Tan, Can Gio with a total area of 200 ha.

Non-significant profit is an important factor making businesses not much interested in social housing even when the government has many policies to support them. Investing in low prices housing is equivalent to low profits and a long pay-back period. According to the calculations of investors, price per square meter apartment for low price housing is about 250 USD. With 100 m² big floor apartments, the investor can usually only sell and recover the capital of 70 m², while 30 m² left is for the corridor and the area for blocks. Thus, if a business invests to construct 100 m² and sells 500 USD / m², it will spend about 25 000 USD before earning a revenue of 35 000 USD, after misusing administrative costs and other accounts, the investor profits will only collect about 50 USD per m². For a long period of time the investment brings negative profit.

Difficulty in mobilizing capital is usually due to the limitation of financial resources of most business enterprises since they are largely depend on bank capital. Estimated by the Vietnam Association of Real Estate, more than 60 percent of invested capital in real estate in Vietnam is covered by bank loans. In many projects the lending rate goes up to 70–80 percent of total investment with a period of 10–15 years. To accelerate the deployment of low cost housing programs in the country, the Ministry of Construction cooperated with the Vietnam Development

Bank in order to settle the loans, credits, and incentives for public housing projects. According to the Ministry of Construction there were 263 registered projects with a total investment of about 3 630 million USD in 2009. However, as reported by the Vietnam Development Bank (VDB), no projects could borrow from the VDB under the preferential policies of the program until November 2010. The main reason is that the investors have no certificates of land use right (red book) that leads to no registration of mortgage transactions. Businesses confirmed that if they could get access to the preferential loans, the product price would be 400 USD/m², but if they not gained cheap funding from the VDB, no cheap houses could be built. Low-income people cannot tolerate the price of 450–500 USD/m². Not having access to concessional loans, many investors have to find alternatives, including loans from commercial banks at high interest rates. That is why many projects may be doomed to bankruptcy.

3. THE DIFFICULTIES OF PEOPLE WITH LOW INCOME

DIFFICULTY IN ACCESSING AFFORDABLE HOUSING

The common situation in recent years is that while the low cost housing projects are just “on paper”, people have already lined up in order to register to buy. Especially the company employees – who have relationships with project owners – would mobilize all capital in order to register immediately. Thus, by the time the building is completed, the properties move through hands of many owners and generate higher prices. Low-income people struggle in order to borrow enough money to buy their dream home, but when the information of for sale apartments reaches them, it is already too late, house prices are way beyond their financial capacity. A concrete example: in April 2009, the Le Thanh Real Estate Company handed over 134 units of a condominium project in Ho Chi Minh City (7 apartment blocks of 10–16 stories, comprising 1 154 apartments with areas ranging from 50 to 81.4 m²). For those whose income was lower than average the price was 300 USD/m². All of those units were sold quickly. However, those apartments were later traded on the market at prices higher than 1.5 times than the original one. Also a lot of sold apartments have been currently advertised for sale and leased on the internet. Some property businesses also like to transfer those apartments for more than 450USD/m². That means that people who bought those houses were not completely in needs of having an apartment to live in. Indeed, in recent years most affordable apartments in projects for people with low incomes are in the hands of those with high incomes.

FINANCIAL DIFFICULTIES

Cheap houses (15 000–25 000 USD per unit) are being invested by real estate enterprises and business. These are mainly for the low and middle income classes including staff members, new graduate students, and young people seeking new

careers in Ho Chi Minh City. However, they can hardly obtain such amount of money to buy these apartments. Except for the financial support from relatives, not everyone can afford an average apartment. Vietnam is still a relatively poor country, the income per capita is low (about 800 USD per person per year), but property prices are ranked among the highest in the world. The Vietnamese “house-price to income ratio” (the price of a house compared to the total income of a person in a year) is in the range of 24.5 to 26.6, higher than in other countries and regions of the world. This is the main reason why most wage earners can hardly buy a house.

So in order to own a home, most low-income people find solutions to obtain bank credits. However, Vietnam is one of the few markets where the customer may find it hard to get access to bank loans for houses. In most affordable housing projects, property firms affiliate with banks to help customers, whereby the common repayment period is usually up to 15–20 years. Some banks offer loan programs to 70–90 percent of the value of collateral assets for a period of 20 years. However, most banks are making very strict conditions for loans. In addition to the fact that the amount of 30 percent of the value of collateral assets has to be paid in advance, customers also need to prove a series of income conditions. To buy a house of about 20 000 USD, the bank requires customers to have a stable income of about 500USD per month or more, but people with low incomes do not have such stable incomes. In addition to that, interest rates are also major obstacles.

In principle, long-term loans should have a preferential interest rate, lower than the short-term interest rates. However, the banking system is still heavily dependent on mobilized short-term funds. It is difficult to find cheap funds for low-interest loans in order to balance the ratio of capital for long-term loans. To solve a difficult part of this, the fund of housing development in Ho Chi Minh City has developed programs to create housing for low-income people. Home buyers can borrow up to 15 000 USD, the maximum term of 15 years at an interest rate of 9 percent per year, adjusted each period by the decision of the People’s Committee of Ho Chi Minh City. However, this incentive is only valid for those who get paid from the state budget and must have permanent residence in the city, thus unable to actually solve the problem of home loan for low income people.

4. SOME SUGGESTED SOLUTIONS TO BE DEPLOYED IN THE UPCOMING PERIOD

SOLUTION 1: PROMOTING THE ROLE OF STATE FINANCE

As one might know, urban finance in Vietnam consists of three parts linked closely together: State Urban Finance, corporate finance, and financial resources of the urban population. State Urban Finance is an important part of urban development in general and particularly in solving urban housing problems. The most important resources of state finance are the urban land-related revenues such as land tax, agricultural land use tax, land use right transfer tax, land use fees, land rents, and wages renting. The city should therefore focus on increasing revenues for the city’s budget by accurately calculating all taxes, fees, and non-tax revenues from urban land.

Along with securing a stable source of income for the urban budget, the city should allocate a reasonable and effective budget for the creation of an urban housing fund.

SOLUTION 2: INCREASING THE SOURCE OF CLEAN LAND

According to Decision 67 of the Prime Minister, investors of housing projects in the commercial scale of 10 hectares or more have to spend a minimum land area of 20 percent in investment projects of building low income housing. The land has to be allocated to investors for building houses for low income people. Should the project investor not be able to perform, the provincial People's Committee shall assign the land to other investors for building low-income housing.

To ensure clean land and to meet the needs of ongoing development, a number of countries around the world have adopted policies on reserve land, in which the government uses budgetary money to buy large suburban areas and implement site clearance. Furthermore, Vietnam's Land Law also created the legal basis for a land reserve model.

SOLUTION 3: DEVELOPING HOUSING COOPERATIVES

Cooperative (co) is an independent association of individuals voluntarily gathering together to meet common needs and aspirations of economic, social, and cultural goals through a business based collective ownership of capital and power which can be run democratically. The fundamental values of a cooperative are taking personal responsibility and accountability among the members together. In other words, a cooperative is an organization of economic interdependence with social and cultural significance. The cooperative model gained a lot of success in developed countries, like in Japan, America, Canada, and in countries of Western Europe.

The Vietnam Cooperative Alliance (VCA) implemented the project "Development of Housing Cooperatives in Vietnam" in cooperation with the Swedish Cooperative Centre (SCC), KF Project Center (KFPC), Cooperative Housing Federation HSB and Riksbyggen in 2007. The purpose of the establishment of the housing cooperative was to continuously provide housing for members with the lowest possible price, good quality housing, including good service with affordable prices and ensuring natural environment, good social housing. According to Stig Hakan Lindhe, director of Center for Cooperative Development of the Swedish Cooperative Union, Sweden currently has 9 million inhabitants and about 4 million housing units, of which 720 000 units (18 percent) are owed by the Cooperative Housing Federation. It seems that the cooperative housing model is being developed in over 40 countries and is fruitfully resolving the people's needs.

To have the opportunity to own an apartment in the program, requirements for a household shall be: having a stable income, participating in the "housing savings programs", truly being in needs of housing, being able to prepay 30 percent of the

house value, willingness to be members of cooperative housing facilities, complying with the rules and principles of cooperative housing facility. The right to buy the first house belongs to members of the housing savings program. Stowage of savings is based on a scoring system: savings of at least 5 USD are worth 1 point per month; a maximum of 15 USD/month corresponds to 3 points. The minimum score is 12 points per year and the maximum is 36 points. The point system is the basis for the distribution of new houses built for members. Should a cooperative housing facility be formed, queue list are being prepared. The apartments will be first sold to the members who participate in the savings program, who have already achieved the minimum score of 180 points.

If the apartment is not sold out for the first priority group then they will be sold to cooperative members who have a score below 180 points. Should this not succeed then the houses will be sold to external parties on the free market. After the purchase, members receive a “pink paper” proving legal ownership rights. The “pink paper” may be used as the collateral to borrow money from banks up to the value from 50 percent to a maximum of 70 percent of the collateral value (in some instances, these loans can even be up to 80 percent to 90 percent of the property value). The related bank will hold the “pink paper” as a mortgage/collateral for the loan. The time of repayment of loans is usually from 10–12 years.⁴

However, to make this model perform well, Vietnam should learn from the experiences of other countries that have already implemented this method. Vietnam should also utilize the help of the International Cooperative Alliance (ICA) to establish a clear and complete cooperative law system. The Cooperative Law of 2003 is still inadequate as it does not yet clarify the nature of the cooperative model, does not highlight the nature of social service organizations and cooperatives. It also lacks regulations on preferential policies and support, inspection, supervision and handling of law violations or lacking of co-operatives. The management of state cooperatives also has many loopholes; the system management apparatus for Cooperative State has moreover not yet been clearly defined. These shortcomings have led to the current situation that many people cannot clearly distinguish between the cooperative and joint stock companies, because members of cooperatives buy shares just as one does in joint stock companies.

SOLUTION 4: THE HOUSE SAVING FUND

House saving fund is considered as one of the best solutions to create a capital channel for effective and long-term housing development. The fund mobilizes monthly savings of people who are in need of housing, plus a part of the investments of urban land and real estate market. Low-income borrowers mortgage the house they buy and the loan will be amortized for over many years.

In Singapore, the government established the Central Provident Fund (CPF). The members of labor organizations are obliged to pay 13 percent while employ-

⁴ Data from the Vietnam Cooperative Alliance (VCA).

ees contribute 20 percent of their monthly salary to the fund to cumulate savings. The money can be used to buy homes, pay hospital fees, school costs for higher education. CPF contributors are supported by the Government with lower flat prices.

In Vietnam, there are many different opinions on this issue, mainly in two contents: mandatory or voluntary. Since the income per capita, land, and housing prices of Vietnam's urban areas vary quite a lot, a voluntary based municipal fund could ideally be established as a pilot program

SOLUTION 5: THE LOCAL PEOPLE'S CREDIT FUND

This solution is for low-income people to have access to housing finance. Currently, the system of the inhabitants' credit funds are regulated by many laws, but based on two basic laws called "Law on Cooperatives" and "Law on Credit Institutions". However, a more elaborative legislation tailoring the inhabitant's credit fund would be necessary to prevent failures.

SOLUTION 6: ENCOURAGING HOUSEHOLDS HAVING SURPLUS LAND TO BUILD MINI APARTMENTS

The Decree number 71 of the Vietnamese government took effect in 2010 allowing households and individuals to build houses in urban areas over two floors, each floor with two or more apartments. The floor area of each apartment should be at least 30 m² and must meet the general provisions of the settlement in accordance with the relevant articles of the Housing Law. The authorized state agencies issue the certificate of ownership for each apartment in the house.

Households and individuals may only sell or lease the apartment after receiving the certificate of ownership. When selling flats, households and individuals must also transfer the land use rights. The sale of small sized apartments is not conducted through the real estate transaction. Small sized apartments are being built in line with the financial capacity of low-income people and the measures at the present stage may help to increase the supply of accommodation. However, small sized apartments must be connected to local infrastructure.

Besides the measures mentioned above, the city should continue to reform administrative procedures, especially procedures relating to granting certificate of land right and housing ownership. The banks should also review the requirements on secured assets in real estate transactions of low-income people in order to create conditions for enterprises and low-income people that enable a more easy access to loans.

CONCLUSION

Housing for low-income people is a problem that pushes cities to find optimal with regards to sustainable development. Learning from the developed countries and

relying on its own particularities, Ho Chi Minh City will certainly find a suitable plan to solve this difficult problem.

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