

# **The International Conference 2010**

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## **Housing and Real Estate Market Development – Worldwide Experience and Options for Vietnam**

26 – 28 November 2010

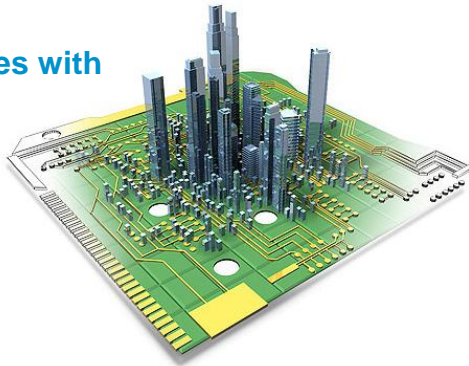
Hanoi, Vietnam

**CISCO**

**THEME PAPER**



## Building Smart Communities with Network as Platform



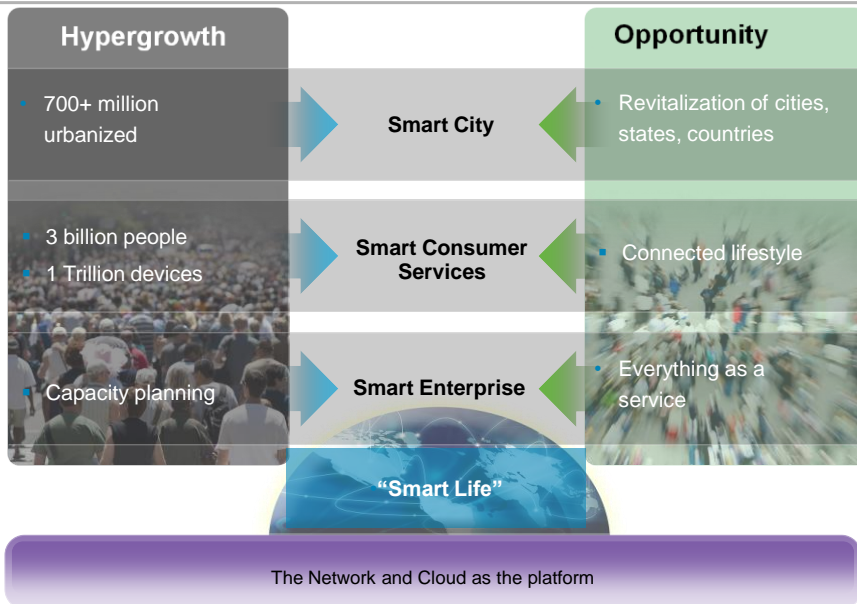
Munish Khetrpal  
November 2010

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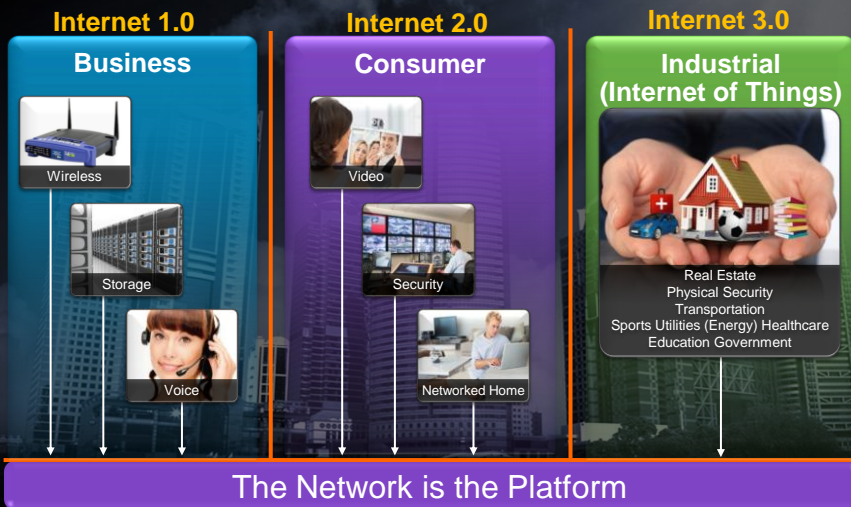
## Social & economic changes creating new opportunities

Massive demand being created in 3 domains – creating a 'Smart Life' Opportunity



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# Network Increasingly the Platform for Many Different Technologies



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# Example: One Building... Multiple Industries, Technologies



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# The Banyan Building: Built for Sustainability

## Environmental

Above LEED Standards:

- 25% above for lighting energy
- 27% above for water consumption
- 31% above for cooling energy
- Enhanced air quality by 30%

## Economic

Annual Payback of:

- OpEx savings of ~15%
- Employee productivity of +9%
- Energy efficiency of +30%

## Social



Collaboration Areas



Cafeteria



Child Care Centre

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## Running a Village, City, Community, Country, the World on Networked Information

Sustainability Services Delivered by Technology

Smart+Connected **communities**

Transportation • Real Estate • Sports & Entertainment •  
Government • Utilities • Education • Healthcare • Safety & Security

### Social

Enhanced quality of life for citizens

### Environmental

Protecting the world for future generations

### Economic

Continuous job and business growth

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## The Sustainability advantage of Smart+Connected communities

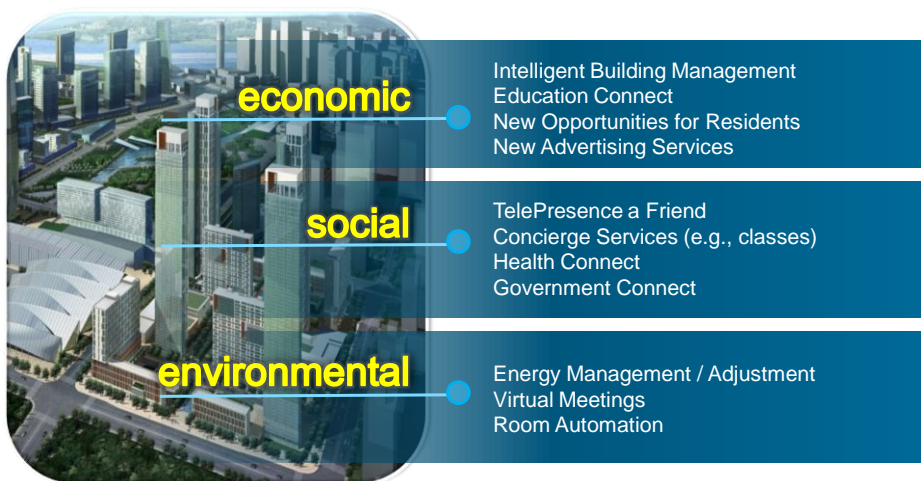
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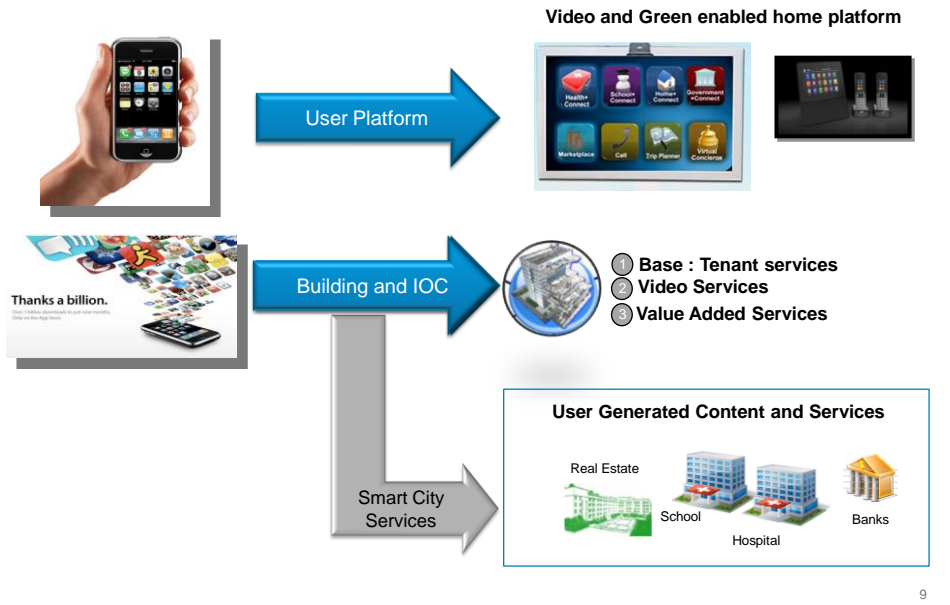
## Delivering Smart+Connected Community Services via the Network as a platform

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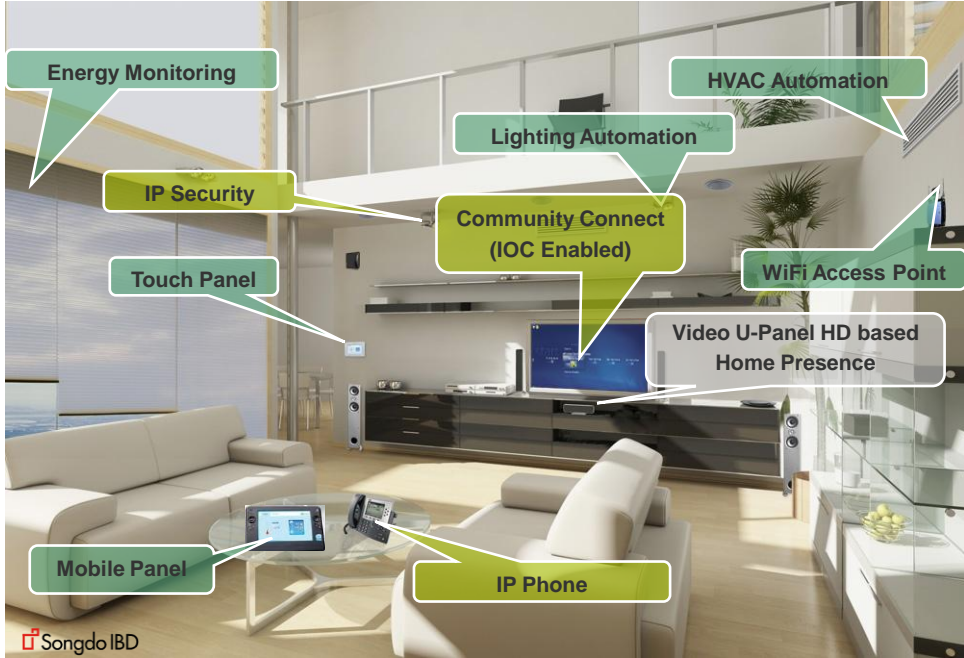


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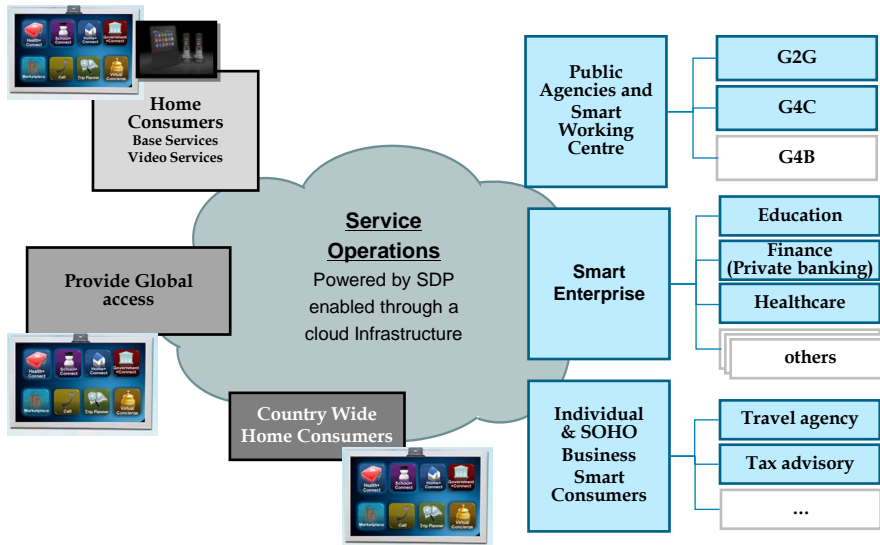
# Strategically leveraging ICT to create and capturing value through platforms



- 1 Base : Tenant Services Standard Pricing
- 2 Video Services (Optional) approx - \$25 /Month
- 3 Value Added Services (Optional)



## Bringing it all together through 'Community Connect (IOC Enabled)' as engine for city and economic growth



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## Tangible benefits of building Smart +Connected Communities for IFEZ



Source: Korea Bank model and Booz

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# Illustrative Smart+Connected Communities Worldwide

## Proof Points



Amsterdam: Smart Working Centres



Seoul: Personal Travel Assistant



San Francisco: Urban EcoMap; Connected Bus

## Case Studies



Kuwait: Al Hamra Tower



Qatar: Gate Building



NYC: Yankee Stadium



Cisco on Cisco

## New Development



South Korea: IFEZ



China: Chengdu



India: Lavasa



Portugal: PlanIT Valley

## Revitalization & Growth



Toronto



San Francisco



Barcelona



Colorado: Connected Communities Initiative



Holyoke



China: Chongqing



China: Chengdu



Vancouver

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# **The International Conference 2010**

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## **Housing and Real Estate Market Development – Worldwide Experience and Options for Vietnam**

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**HABITAT**

**THEME PAPER**

## **Housing market and the role of housing in Socio-economic Development**

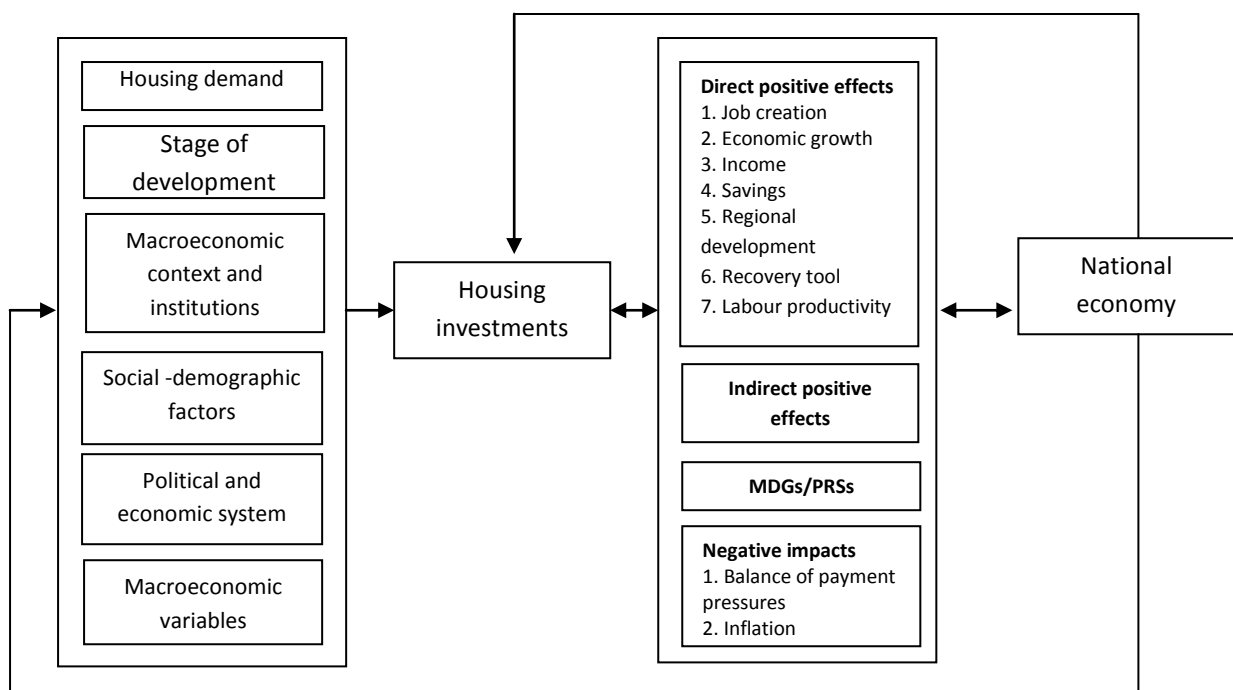
Dr. Nguyen Quang  
MSc. Do Minh Huyen  
UN-Habitat Programme in Vietnam

After decades of debate about the role of housing in socio-economic development, today, many countries have found that housing is a driving force for sustainable economic development. Housing construction contributed significantly to the creation of value added output and fixed capital, being the catalyst for investment in other sectors. In both developed and developing countries, the share of construction sector in GDP is around 3-10%, of which one third originates from housing sector. Housing construction activities also play an important role in the urban economy through job creation, especially for unskilled workers. Housing tenure is the valuable basis for access to loans for business expansion. The development of housing finance systems can be means for financial resources mobilization for national economic development.

In addition to the relationship between formal housing and formal economy, there is a close relationship between informal economy and informal housing in developing countries. A recent study of United Nations Human Settlements Program (UN-Habitat) on the informal economy in six developing countries around the world shows that in Delhi, most of the household enterprises are located in areas of high population density, where the urban poor live and cheap labor is available. Housing construction contributes to the development of small construction enterprises, mainly based on informal labor. In particular, in the low-and middle-income settlements in the developing world, housing is not only a shelter but also a source of income through business activities and house rental.

As housing is an important element in the work - living – entertainment triangle, showing the living conditions of any city, it plays a central role in human development. Therefore, investment in housing can not be considered as a social policy that has almost no impact on other economic sectors. Instead, housing should be considered as a resource - a production and investment good. Economic benefits of housing should be considered and planned to become a central component of national development strategies.

The objective of housing policy is to ensure that housing market functions effectively. Housing construction creates a series of economic impact and can be seen as a tool to reduce poverty. However, if investment in housing is not accompanied by appropriate policies, it may cause inflation and put pressure on the balance of payments. Macroeconomic policies of the government can solve these problems and ultimately, will affect housing policy and investment levels.



Note: MDGs: Millennium Development Goals; PRs: Poverty Reduction Strategies

**Figure 1: The relationship between housing and economic development**

Shortcomings in housing sector represent a major threat to sustainability of the environment and poverty. Therefore, social and environment issues need to be better integrated into housing policies, plans and programs. In addition, housing policies should be associated with goals of poverty reduction, including creating jobs and mobilizing local financial resources or the development of fixed capital for the community.

### UN-Habitat global experiences on Housing

According to UN-Habitat estimates, 1.1 billion people currently live in slums and about 100 million people world-wide are homeless. Asia has the largest number of slum dwellers (554 million). The increase in the number of slum residents is largely a result of booming in urban population growth and subsequent inability of public and private sectors to produce sufficient housing. In the developing world, from 2000 to 2010, urban population has increased an average of 58 million people per year, the number of slum residents also increased by nearly 28 million people per year. UN-Habitat estimates that in developing countries, in this decade, each year 22 million people have been lifted out of slum conditions through slum upgrading or prevention. This means that, each year, in developing countries, an average of 6 million people became slum dwellers. Housing challenges require governments, private sector and international development organizations cooperate to mobilize financial resources allocated for the provision of new housing units.

UN-Habitat's research shows that worldwide, there have been changes in attitudes about investment in housing in the different stages of development (Table 1). A typical example is the reform of housing policy in China, with the transition from centrally planned to market oriented economy, including private sector participation in housing delivery and decentralization of power to local governments. Chinese government today views residential development home- ownership as a top policy priority, to increase economic efficiency and reduce government intervention in housing market. As a result of reform in housing policy, housing investment by households increased from 17.9% in 1983 to 43.1% by in late 1990s. Per capita living space increased from 3.6 m<sup>2</sup> in 1978 to 8.8 m<sup>2</sup> in 1997. Three lessons of

China are: (1) A reconceptualization of housing from being tagged as a “non-productive” investment to an investment good (2) The importance of the housing markets in economic reforms, allowing these markets to compete effectively for private capital, and (3) A strong emphasis on private home ownership - through which housing has become the main investment instrument for most Chinese families.

**Table 1: Changes in attitudes about housing and economic development**

**Initial arguments against housing investment: 1940s-1950s**

- Housing investment demonstrates low productivity
- Housing has a high capital to output ratio compared to other investments
- Housing is a by-product of economic growth
- Houses is a consumption goods and therefore does not receive scarce resources
- Investment in housing contributes to inflation and use valuable foreign exchange resources
- Housing has a high import content and exerts pressure on the balance of payments
- Housing programs targeted at specific areas (including urban) is the incentive for migration, thus leading to uneven regional development
- Mass housing construction has strong multiplier and knock-on effects in the economy

**Arguments for housing investment 1950s-1970s**

- Housing is a basic need for humankind
- Building houses is a useful counter-cyclical tool
- Housing is both a major contributor to economic growth and a large part of national capital stock
- Housing improvement lead to increases in labor productivity
- Housing has close relationships with other industry
- Investment in housing contributed to increased employment, income generation and savings
- Housing finance institutions contribute to national financial mobilization
- Improved housing conditions lead to improved health and reduction in social problems

**Arguments for housing investment: Post 1970s**

- Housing conditions improved support poverty reduction efforts
- Integration of urban informal housing into the formal economy will impact positively on the wellbeing of low income groups and increase the sustainability of human settlements;
- Adequate housing for all contributes to equitable and egalitarian development
- Integrating environmental issues into housing investment will promote sustainable human settlements and national development
- Meeting the challenge of housing encourages public-private partnership
- Mass housing construction has strong multiplier and knock-on effects in the economy

In the development plans of Singapore, Korea, Thailand, Hong Kong and Taiwan, the governments have recognized housing as a foundation of economic growth, employment and wealth creation and as a macroeconomic stabilizer during periods of recession.

In the past decades, there has also been a change in the attitude of governments toward informal land and housing markets. From eviction approach, governments have shifted to

support for legalization and upgrading in order to protect low-cost housing stock, creating a wave of investment in upgrading of the informal settlements, enabling people to access basic services as well as the formal financial system. Instead of intervention into the land market, the government has adopted policies to integrate formal and informal land market, creating the flexible customer-oriented system of land management. Since most housing for low-income people in developing countries are built by the informal sector, Habitat Agenda recommends that governments should "*Make use of contract with community based organizations and, where applicable, informal sector for planning, designing, construction, maintenance and rehabilitation of housing and local services, ... emphasis on the participation of stakeholders.*" Governments can support small scale informal enterprises through technical support and capacity building on technology, as well as removing legal barriers which impede the participation of these enterprises in providing housing through the adjustment of building regulations and standards.

Since the early 1990s, the global community has adopted more holistic approach to address challenges in housing sector. A variety of programs and campaigns with the aim of ensuring adequate housing for all and the development of the sustainable human settlements have been implemented by UN-Habitat, including: Sustainable Cities Program, Global Campaign for Secure Tenure, Cities without Slums Program. As improving human settlements is a complex task, these programs require the integration and linking of various activities, such as participatory planning, shelter delivery, land management, provision of infrastructure, finance and employment.

United Nations in 2000 adopted the eight Millennium Development Goals (MDGs), in which Target 11 aims to improve the lives of at least 100 million slum dwellers by 2020. A number of UN-Habitat studies showed that improving housing is closely related to socio-economic indicators (Table 2).

**Table 2: Relationship between Target 11 and Millennium Development Goals**

MDGs	Correlation
Eradication of poverty and hunger	Hunger and malnutrition is particularly high in slums and rural areas
Universal primary education	Education is essential in reducing poverty, improving health conditions and halting the spread of HIV / AIDs Drop-out rates are higher in slums than in non-slum areas
Reduction of child mortality	Mortality rate in children is closely related to poverty, especially families living in slums
Improvement in maternal health	Maternal health rates are directly related to the living environment
Combat HIV/AIDS, malaria and other diseases	Inadequate shelter and poor living conditions and indoor air pollution shorten the life span of slum dwellers

Environmental sustainability

The nature of living environment has a significant implication on the environment

Source: UN-Habitat (2008)

When poverty is still a major problem, solutions to housing can not be merely income redistribution. Funds for improving housing conditions need to be mobilized from households. Housing policy should be adjusted to specify clearly target groups. Formal housing finance system only improves access to loans of the better-off households. Microfinance can help expand access to finance for lower income households, and provide financial resources to meet the needs of the poor with lower risk.

### **Views on land and housing markets in Vietnam**

Currently, there are many shortcomings in the development and rehabilitation of urban housing in Vietnam. First, the price of urban housing, especially in big cities is very high compared to average income. One example is in Hanoi, the average price of condominiums range from 1000-2000USD per m<sup>2</sup>, making access to housing for low-income people, even middle income very difficult when GDP per capita in Hanoi is only 2000 USD per year. The transformation from rural to urban areas in Vietnam contains command and control elements, leading to the fact that land markets operate without transparency and efficiency. Many investment projects are provided with land for housing construction and urban development, but due to many different reasons, a lot of land for housing projects are now frozen and developed with stagnation. Moreover, when housing supply is still influenced by monopoly factors, the phenomenon speculation has become common, distorting the market and negatively affect people with real housing needs.

The development of urban areas, including housing, is still spontaneous and lack of synchronic infrastructure, particularly peripheral areas, and there is a trend of new slum formation. According to the criteria of UN-Habitat, currently in Vietnam, about 38.3% of urban population are still living in slums (defined as having one of these factors: (i) lack of access to safe water; (ii) lack of environmental sanitation and infrastructure, (iii) temporary housing structures, (iv) overcrowded, and (v) insecure housing tenure).

The mobilization of capital for construction and rehabilitation of housing is also an existing shortcoming. Enterprises investing in urban housing usually start with a very small amount of capital and thus, depend heavily on funds raised from banks, credit and other small investors. The financial and credit structures are not strong and stable, many houses are lack of formal legal conditions, so the form of mortgages for home buyers is limited. Micro-finance model has not been developed for low-income people who are in need of housing renovation but ineligible for mortgage procedures.

Besides, there are issues related to living conditions of migrants from rural to urban areas, especially in major cities. Currently, every year, nearly a million people are added to urban population of Viet Nam, including hundreds of thousands of migrants, most of whom have low income and lack of secure tenure. A big question is whether these immigrants have access to State's support to housing, urban infrastructure and services, or whether they will continue living in the overcrowded informal settlements?

Another fact is that in many new urban areas, investors focus on construction of houses for sale without paying attention to social facilities such as schools, kindergartens, cultural houses, parking lots, parks ... Financial sanction is necessary for the construction of these basic social facilities.

The absence of an urban development strategy in cities has also led to the development of large scale but delayed urban projects scattering on different areas. If we can focus on certain areas for development, the cost for provision of basic infrastructure will decrease remarkably.

Law of Housing in 2005, followed by Decree 71 and Circular 16, show changes in the attitude toward the role of the State from housing provider to managing and enabling all economic sectors to participate in housing development and rehabilitation in accordance with market mechanisms. Decree 71 and Circular 16 has specified regulations and guidance on some issues such as housing ownership, housing development and management of the use of housing, housing transactions and state management in housing sector. In particular, the Decree and Circular issued new regulations on the management and development of public housing stock which experienced a period of poor management leading to waste or improper use of this housing stock. Management and use of condominiums is also specified to facilitate people who rent and purchase apartments to be directly involved in the management of condominiums. Decree 71 and Circular 16 also provide details on the process to develop, implement and manage housing development projects, including social housing for governmental officers and employees, military personnel, workers, students and low-income people. In particular, these bylaw documents specify the provisions on commercial housing transactions through real estate market and other forms of capital mobilization for the construction of commercial housing, resolving conflicts in the procedures of capital mobilization and transactions.

Besides the positive aspects, there are still shortcomings requiring synchronous renovation in macroeconomic policies, particularly the system of laws and regulations in the field of housing, land, planning and finance. High price of housing is mainly due to high land price and limited supply of land with infrastructure. Access to land is still lack of transparency. Current planning methodology is still very top down and rigid in terms of spatial development, while lacks the tools for development control. In particular, there is limited participation of stakeholders, leading to difficulties in implementation and limit the formation of the urban areas with sustainable living environment and affordable to the people.

While the poor and low income people can only afford to pay for rental housing, the formal market only focus on private owned housing. Law of Housing and bylaw documents refer only to social housing for rent and for sale as well as rental housing contracts without clarifying the regulations on the management and development of rental housing market. Because rental housing market is not developed, the poor often look for informal rental housing with cheaper price and not being constrained by the strict management regulations. However, the problem of informal rental housing is the lack of suitable facilities such as water supply, solid waste collection and environmental sanitation.

Rehabilitation of old apartment buildings or new settlements but lack appropriate infrastructure is also very important. Law of Housing and the guidelines have not clarified the role of the State to enable community based upgrading and land redevelopment. Many

developed and developing countries such as Japan, Korea, Thailand, Sri Lanka have encouraged redevelopment projects based on community initiatives in which governments enable community (or in cooperation with non-governmental organizations) to develop, manage and implement projects to upgrade and renovate the houses for the people. The State can also support through the provision and institutionalization of microfinance tools or community development funds.

Decree 71 refers to the State's investment in social housing from the capital budget, showing that the direct intervention role of the State is still very strong in housing construction and delivery. In the context of limited resources, subsidy is not sustainable. Moreover, it is difficult to ensure the accessibility to subsidized settlements for those who really need support as most of subsidized settlements are far away from the workplace or the poor and migrants are usually ineligible to get loans for renting or purchasing houses. International development organization such as UN-Habitat and World Bank usually recommend governments not to intervene directly in housing construction but play a role in enabling the housing market development. In case subsidies are provided, efforts should be made to ensure transparency and benefits for the poor and vulnerable groups.

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