ADDRESSING HOUSING AFFORDABILITY CHALLENGES

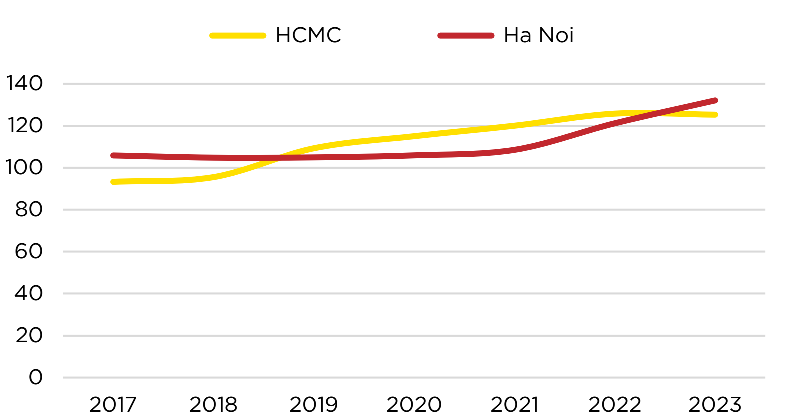
Nearly every major city in the developed world is grappling with high housing costs.

Income v. residential price growth, since 2010

Source Savills Research & Consultancy using BIS, Focus Economics data
Note Average nominal index of 12 nations
Base index: 2010 = 100

The Residential Property Price Index across 12 nations, including Australia, Canada, China, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, Thailand, the United Kingdom, and the United States, surged by 5% per annum (pa) since 2019, while income has increased by 4% pa over the same period.

Residential price growth in Viet Nam major cities, since 2017



Source Savills Research & Consultancy

Since 2022, buyers and renters globally have faced the challenge of rising interest rates. This has led to growing dissatisfaction among electorates: nationwide polls show that 41% of Australians and 47% of Canadians rank housing costs as one of their top three concerns. Affordable housing is not just about appeasing citizens; it also enhances a city's appeal to both residents and companies seeking a place to live and work. Savills Tech Cities research highlighted a trend of people and firms relocating from large, expensive cities to smaller cities in the United States, such as Denver, Bristol, and Tallinn, where the cost of living is lower. In most international markets analysed, supply shortages are the primary drivers of unaffordability.

Besides housing prices outpacing income growth, supply has not kept up with the rising population. This imbalance has driven rents and property prices to unaffordable levels, as many markets contend with significant and historically accumulated shortfalls.

While markets face similar challenges with affordable housing supply, their approaches to housing delivery and market regulation vary.

Lighter-touch regulations in the Anglosphere

Housing markets in Australia, Canada, and the US share key characteristics, particularly their relatively light regulation of rental properties and limited public housing programs. This regulatory environment allows for more market-driven dynamics but also comes with challenges, especially in terms of affordability. In response to concerns about housing accessibility and speculative investment, both Canada and Australia have implemented restrictions on foreign buyers of residential property. This measure aims to curb the impact of foreign capital on domestic housing markets, which can drive up prices, especially in desirable urban areas. However, such restrictions may not fully address the underlying issue of limited housing supply relative to demand, which continues to strain affordability.

Meanwhile, in the UK, historically, social housing played a major role with a significant portion of the population. However, the decline in social housing stock to just 17% of the total market has shifted the burden of affordable housing provision to the private sector, particularly through Section 106 agreements. These agreements mandate that new developments include a percentage of affordable homes, making private developers partially responsible for addressing housing needs. As noted by Emily Williams, Director of UK Residential Research at Savills, a recent slowdown in housing delivery threatens to limit the effectiveness of this mechanism. If the government aims to increase affordable housing through Section 106, there needs to be a parallel focus on expanding land supply and providing clearer, long-term policy guidance for housing associations and local authorities. Without such measures, the delivery of affordable housing may continue to lag behind demand.

Different dynamics in Asia

The housing markets in Asia, while diverse, share some common challenges with Western markets, particularly in terms of affordability in urban areas. China's housing market stands out due to its massive construction boom over the past decade, which has outpaced population growth. Despite this, urbanisation, especially the migration of workers to first-tier cities like Shanghai and Beijing, continues to drive demand in these areas. James Macdonald, Head of Research at Savills China, noted that housing affordability is not a nationwide issue in China but is concentrated in its major cities. Additionally, housing remains a preferred investment in China, with limited alternative investment options available. This has led to properties being purchased but left vacant, exacerbating supply issues in high-demand areas.

Troy Griffiths
+84 933 276 663
tgriffiths@savills.com.vn

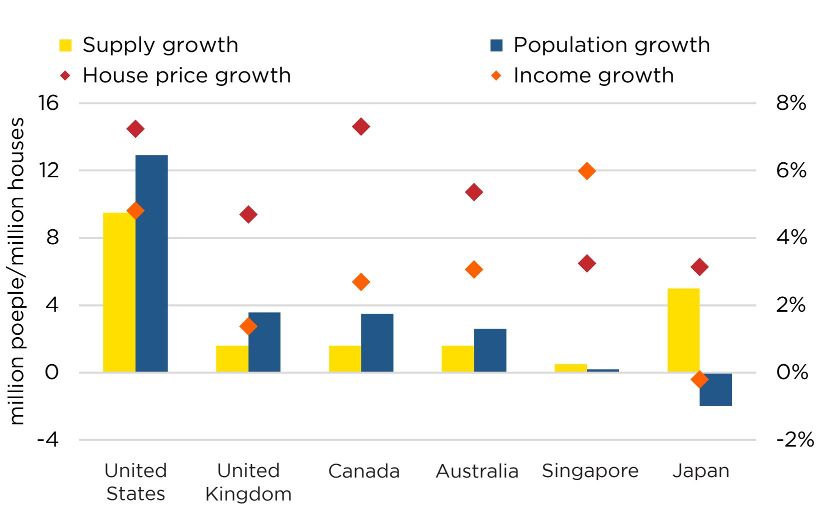
Giang Huynh
+84 902 851 189
hthihuonggiang@savills.com.vn

The Chinese government is addressing these problems by encouraging the development of rental housing, which may alleviate pressure in urban markets.

Housing affordability in Japan is a localised issue, primarily affecting large and dynamic cities such as Tokyo and Osaka, even as the country's overall population declines. Tokyo saw a net migration increase of over 125,000 people last year, underscoring the continued urbanisation and demand for housing in major metropolitan areas. This influx of residents is driving up rents and property prices, exacerbating affordability concerns. Despite significant national efforts to increase housing supply, the situation remains strained due to limited availability in high-demand urban areas. One complicating factor in Japan's housing market is the country's unique practice of frequently demolishing and rebuilding homes. This constant cycle of reconstruction means that even though new homes are being built, they do not necessarily contribute to an overall increase in housing stock. Instead, the process replaces existing homes, leading to a constrained supply that fails to alleviate pressure in the most sought-after locations.

Singapore's housing market is characterised by a stark division between the public and private sectors. Most of the population—over three-quarters—live in public housing built by the Housing Development Board (HDB). This system has been highly effective in promoting homeownership, with 90% of citizens owning their homes. The HDB's role in providing affordable housing has been a key pillar in maintaining social stability and ensuring that most residents have access to secure housing. On the other hand, the private housing market, dominated by condominiums, operates under different dynamics. To protect local citizens and permanent residents from speculative pressure, Singapore has implemented stringent regulations on foreign buyers, including a 60% stamp duty. Despite these measures, the private housing market has experienced sharp rises in rents and prices, particularly since the pandemic.

Comparing national supply and demand metrics



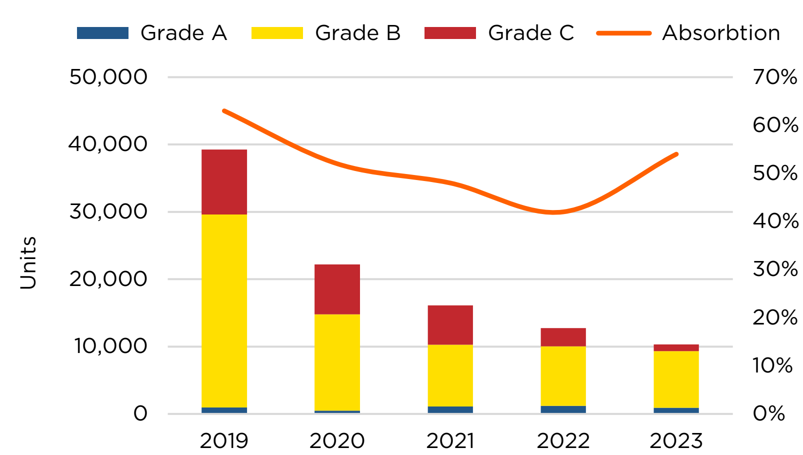
Source Savills Research & Consultancy using national statistic and BIS, Focus Economics data
Note: Growth is surveyed in the period of 2015-2023

Viet Nam practices

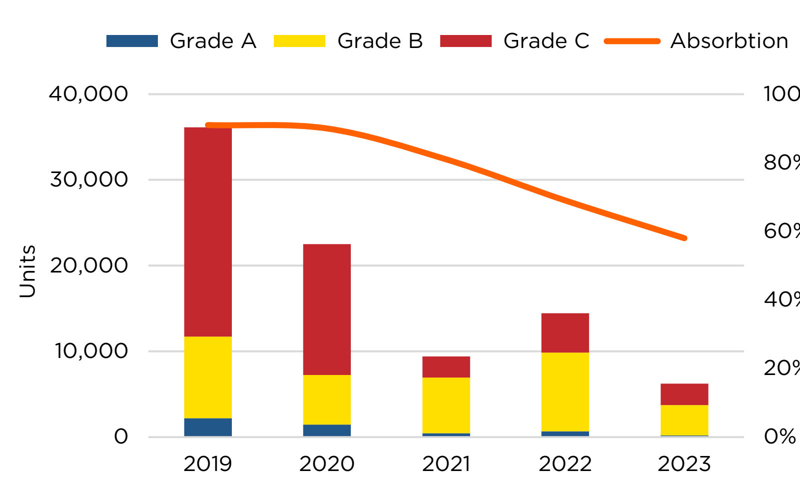
Similarly, Viet Nam faces housing affordability challenges, particularly in major cities like Ha Noi and Ho Chi Minh City (HCMC). From 2019 to 2023, the residential property price index rose by 6% pa in Ha Noi and 3% pa in HCMC, while personal incomes grew by 4% pa in Ha Noi and 3% pa in HCMC. The real challenge lies in the significant decline in supply across all markets. This is a combination of legal constraints, developers' issues, a turbulent financial market and government paralysis.

A healthy market typically features a dominant share of Grade B and C properties, as in both HCMC and Ha Noi. In both cities, demand for 50,000 dwellings per year, driven by immigration and changing household dynamics, has not been met, leading to pent-up demand.

HN Performance by year



HCMC Performance by year



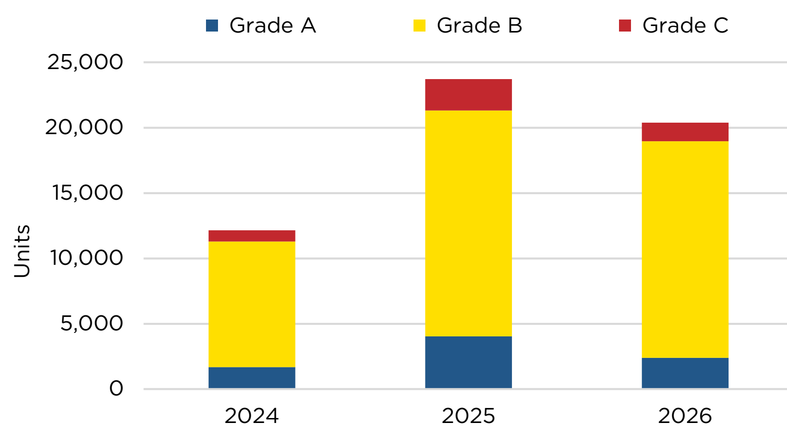
Giang Huynh, Director of Research and S22M at Savills, stated that the future housing supply in HCMC will not meet the current demand. Furthermore, looking at neighbouring markets such as Binh Duong, Dong Nai, and Long An, the combined supply from these markets also falls short of meeting the region's existing needs.

Future supply is also limited, with HCMC seeing more high-end products in the short term and less affordable options, while Ha Noi continues to focus on Grade B. Key factors influencing these trends include rising incomes, scarce and expensive development land, and slower administrative processes limiting new projects.

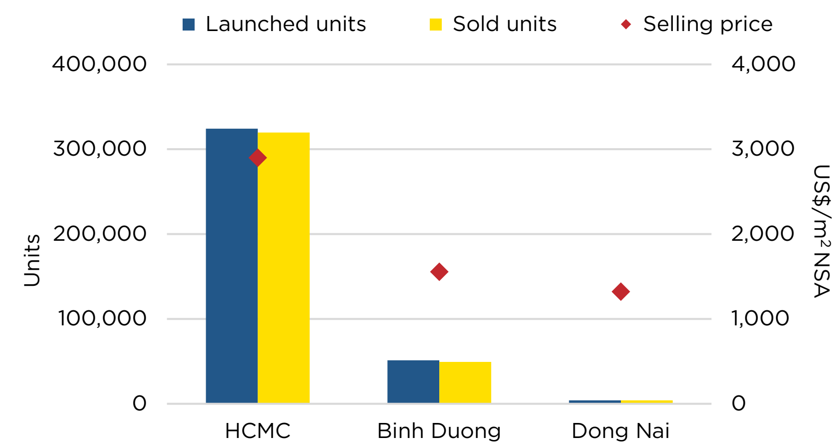
Troy Griffiths
+84 933 276 663
tgriffiths@savills.com.vn

Giang Huynh
+84 902 851 189
hthihuonggiang@savills.com.vn

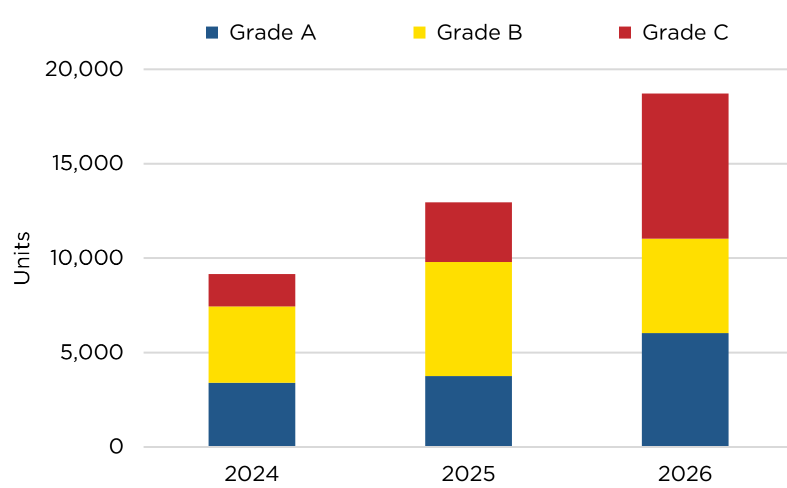
HN Future Supply, by 2026



HCMC Performance Benchmark, 2023



HCMC Future Supply, by 2026

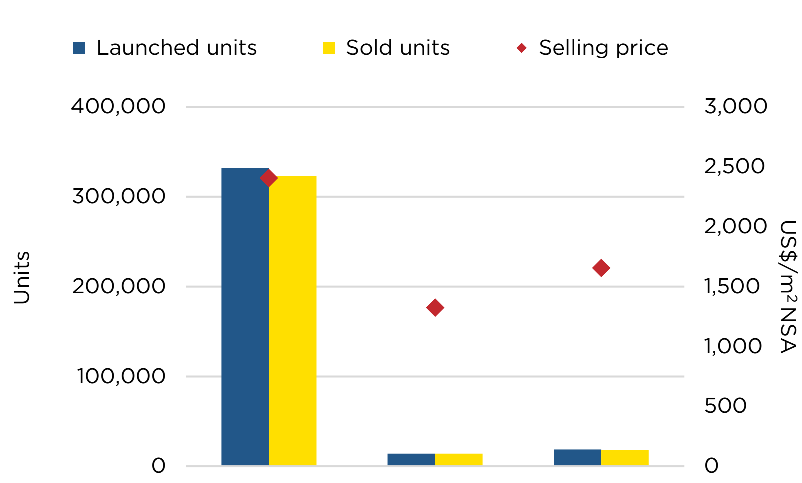


The national government's ambitious infrastructure spending, at around 6% of GDP, covering roads, power, bridges, airports, ports, and rail. The revised Land Law aims to accelerate delivery by utilising market value frameworks. Much of the infrastructure focuses on improving connectivity, linking outlying cities/provinces to HCMC and Ha Noi through roads, highways, and ring roads. This reduces travel times, effectively bringing the CBD closer to peripheral areas.

Transport-Oriented Developments (TODs), like metro systems, enable high-density development along routes and make commuting more efficient. They also give developers access to cheaper land, allowing for more affordable housing.

Ha Noi and HCMC are expanding into nearby provinces, such as Binh Duong and Bac Ninh, where land prices are significantly lower. This expansion, supported by improved infrastructure, makes these areas more accessible and affordable for housing.

Ha Noi Performance Benchmark, 2023



In addition, the Land Law 2024, Real Estate Business Law 2023, and Housing Law 2023, are expected to resolve ineffective land use, as well as difficulties in accessing land for development.

The revised Housing Law 2023 aims to increase transparency and streamline administrative procedures. It limits foreign ownership to 30% of all units within an apartment complex and to a maximum of 250 houses in a specific ward. Foreign entities or individuals are limited to a 50-year tenure, with optional renewal of no more than 50 years. Foreign individuals married to a Vietnamese citizen, including Viet Kieu, are entitled to freehold tenure.

To boost housing supply and prevent speculation, Clause 1, Article 31 of the Law on Real Estate Business, effective 31 January 2025, bans land subdivisions in urban districts and cities classified as Class I, II, and III. The 2023 Housing Law, unlike its 2014 predecessor, prioritises apartment development in key urban areas. To incentivise social housing, the revised law removes the 20% land reserve requirement for commercial projects, allowing developers to allocate that portion for commercial housing. Social housing investors also receive exemptions from land use fees and land rent, along with access to low-interest loans.

The need for housing investment

Addressing the challenges of housing supply and affordability requires a multifaceted approach. Evidence shows that no single solution can resolve these issues entirely. It is evident that both the private and public sectors need to collaborate, as neither can tackle the problem alone.

National budgets are strained, and rising interest rates will make it more difficult to finance affordable housing projects. At the same time, the private sector faces inflation in construction, labour, and finance costs. Effective collaboration between the private and public sectors is essential.

The private sector can contribute capital and expertise, while the public sector can offer access to land and expedite the legal approval process. If affordable rental housing can yield acceptable returns for institutional investors, it could unlock significant investment capital.

Troy Griffiths
+84 933 276 663
tgriffiths@savills.com.vn

Giang Huynh
+84 902 851 189
hthihuonggiang@savills.com.vn

Global decarbonisation goals add another layer of urgency. Institutional providers of affordable housing can support these goals by upgrading existing assets and repurposing obsolete properties, such as vacant offices or shopping centres, supported by favourable zoning and regulations. Additionally, densification and effective placemaking will be crucial for delivering affordable housing.

City governments should facilitate collaboration among landowners to revitalise neighbourhoods. This approach can produce sustainable housing on smaller land footprints, incorporating shared amenities and open spaces.

The affordability crisis worsens with each year of housing undersupply. Therefore, accelerating cooperation between the public and private sectors is vital for addressing this issue at scale.

Troy Griffiths
+84 933 276 663
tgriffiths@savills.com.vn

Giang Huynh
+84 902 851 189
hthihuonggiang@savills.com.vn

Savills Cares

Industry award fees are being redirected to help local people. Charities for underprivileged around the country will receive donations.

Savills is committed to caring for the community.

CHARITY PARTNERS

blue dragon CHILDREN'S FOUNDATION | saigonchildren