

**NORTH VERSUS SOUTH: POLITICS AND SOCIAL NORMS IN THE EVOLUTION OF PRIVATE
PROPERTY RIGHTS IN VIETNAM**

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ABSTRACT

This paper presents empirical evidence of how Vietnam's newly emerged private property rights evolved during the 1993-2004 transition period. Despite a centralized political system, nation-wide legal reforms, and similar high housing demand pressures, property rights evolved differently in Vietnam's two leading cities Hanoi and Ho Chi Minh City. While previous scholarship would predict the change towards private property rights, this paper argues that the observed differences between the two markets' vocabulary and prices for the new rights indicate the importance of both local social norms and politics in shaping the evolution of property rights.

INTRODUCTION

How do private property regimes come about? Harold Demsetz' classic theory counted the costs and benefits (1967). A sufficiently large net economic gain that could be generated by a change in property regimes would provide the incentives for society to impel such a change. However, some places seem more apt to change than others. For example, empirical evidence has shown that renewed public efforts to lower the private costs of legal titling have still had limited success in unlocking the benefits of property ownership (Payne 2001; Woodruff 2001; Field and Torero 2004). Meanwhile, in places like the transition economies, private property systems of various permutations have been rapidly spreading (Kaganova 1995; Li 1999; Zhu 2002; Lowe and Tsenkova 2003). Clearly other factors besides costs and benefits are needed to account for the empirical diversity.

Explaining the evolution of property rights has been posed as one of the great challenges in the economic analysis of law (Merrill 2002). In particular, the mechanisms by which society counts the costs and benefits and the form that new property rights take as a result have been left unanswered. By delving beyond economic cost-benefit calculations to examine the processes of property rights regime changes more recent literature has been identifying other institutional factors that can make important differences in property rights outcomes (Banner 2002; Libecap and Smith 2002). However, the scholarship seems to reside in two disparate universes. One is a political world where group interests manipulate or negotiate changes in property regimes for their benefit (Epstein 2002; Levmore 2002). Meanwhile, there are also quaint, small communities where people know one another and agree on a property regime for the common interest (Ellickson 1987; Ostrom 1990; Ellickson 1991; Ellickson 1993). In either case, while these arguments are compelling, concrete evidence of how these factors impact market transactions has been lacking.

This paper extends the current state of the literature by presenting empirical evidence of how differences in local political interests and social norms interacted with economic costs and benefits to produce variations in how new private property rights were adopted and function between two cities in Vietnam during 1993-2005. Vietnam is an interesting case for the literature for several reasons. One, while Vietnam has often been cited as not having made appropriate institutional reforms for private property rights (IMF 2000; Heritage Foundation 2004) it has developed widespread private property markets. Second, while the legal framework and administrative structures are homogeneous across the nation, property rights have evolved differently between its two major cities: Hanoi in the north and Ho Chi Minh City (HCMC) in the south. While both cities faced rapidly growing housing demand pressures which would help impel a change towards private property rights institutions as previous scholarship has indicated, this paper argues that differences in both the local social norms and politics account for the observed differences in the vocabulary and market valuation of newly formed private property rights. Relative to Ho Chi Minh City, Hanoi's social norms and more rigid bureaucracy led to a real estate market which was slower to adopt new legal terms for property rights and penalized properties with ambiguous property rights status. Meanwhile, Ho Chi Minh City's market rapidly evolved new terms for property rights in order to capitalize on the latest formal legal changes. It also allowed properties with more ambiguous tenure to still come to market because a range of property rights could still be enforced through alternative institutions allowed by its particular social norms and more flexible government bureaucracy.

In presenting the empirical evidence, this paper first introduces how private property rights reforms were implemented by the Vietnamese government. Next, it discusses differences in politics and social norms between Vietnam's northern and southern regions according to key informant interviews and the area studies literature as well as hypotheses about how these differences should affect the operationalization of these new rights. Then, the paper turns and applies hedonic price models to statistically analyze how the newly emerged property markets of Hanoi and HCMC value private property rights. Finally the paper discusses how these findings can contribute to policy and academic discourses.

PROPERTY RIGHTS REFORMS AND INSTITUTIONS IN VIETNAM

Policymakers have warned that Vietnam does not have the right institutions for the protection of private property, namely clear legislation, title registration, and capable court systems. However, people in the marketplace have been buying and selling their rights to residential property in the rapidly expanding real estate markets. Of course these property rights claims are not valid without legitimate enforcement institutions (Cole and Grossman 2002). But, there can be a great amount of diversity in where and what form economic institutions take in specific contexts. This section first identifies the property rights institutions that exist in transitional Vietnam.

Before the transition, Vietnam's government planned where people were employed, housed, and received food and social services through a household registration system. The bureaucracy involved with this system meant that household tenancy was well documented when Vietnam began its major economic reforms in 1986. With the introduction of the 1993 Land Law, a major change in property rights was allowed in this communist nation. The state still retained ownership of all land but a private person or entity could now possess, transfer, and mortgage use rights to a land parcel for a specific period of time, essentially functioning like leasehold rights found in the U.K. and Hong Kong.

Legally, urban households must obtain a Building Ownership and Land Use Certificate (BOLUC) which combines homeownership with the land use right into one legal document. Also known as the "pink certificate" for its color, the BOLUC is the equivalent to having a fully titled private residential property. However, since its introduction, less than 25% of the houses had obtained them by 2001 (Dang and Palmkvist 2001).¹ The reasons why so few properties have the BOLUC are many (Kim 2004).

In some cases, a house's lack of title could be a reflection of being caught in a bureaucratic limbo for missing some of the legal papers needed to document tenancy or the local ward or district government's limited administrative capacity to issue them. Meanwhile, because of the fees and time involved in obtaining the BOLUC and the tax liabilities involved with ownership, some buyers and sellers prefer to transact without it. Others pay property related taxes and fees and have the wards notarize the transaction which increase the legitimacy of ownership claims but still do not register for title.

Another reason why one might not have received the BOLUC despite applying for it and possessing all the necessary legal papers is that any lingering property disputes over ownership, boundaries, etc. must be resolved before they are issued (Gillespie 1999). This is an important point since property claims are only truly property rights if they are enforced (Cole and Grossman 2002) and so the true test of a claim being a right is shown by the way disputes are resolved. Like other centrally planned countries, Vietnam has an elaborate government bureaucracy involved in many aspects of household economic life that is involved in settling disputes. However, compared to other Asian communist states, Vietnam is characterized by a high amount of discretion at the lower levels of government (Fforde and de Vylder 1996; Leaf 1996; Gainsborough 2002). For example, in HCMC, the majority of land and housing disputes are handled by neighborhood communities and local bureaucrats (see Figure 1). The first and lowest institution for handling many kinds of disputes is the residential block committees, the *to dan pho*. Outsiders are often surprised by the extent to which neighbors in Vietnam can weigh in on what would be deemed private household affairs in other contexts. But, the attitude is to resolve disputes as quickly as possible and locally through arbitration in order to avoid more official involvement of higher levels of government. If the *to dan pho* cannot resolve a dispute, the ward may get involved.

In 2001, there were 238 urban wards in HCMC with on average roughly 4,000 households in each ward. Many ward offices have bureaucrats designated to deal exclusively with land and housing issues in their ward. Ward officials estimate that 30-50% of the disputes they hear annually concern land and housing issues and that they can resolve roughly 70% of them. One ward president who presides over a ward on the city's outskirts explained in an interview that the wards not only use their own records to check ownership but that they often also know who the people are because they attend each other's weddings, anniversaries, and memorial services. Disputes unresolved at the ward level of government may gain a hearing with the district government's land and housing departments and civil courts. District courts in HCMC hear about 600 housing cases a year and approximately one-third of these are referred on appeal to city courts taking an average of 1-3 years to be resolved (Gillespie 1999). So, property rights enforcement occurs at a variety of state institutions and ranges from negotiation to increasingly formal legal means. The availability of alternatives also helps to explain why households are slow to obtain the BOLUC. However, possession of the BOLUC would provide less risk of title disputes for which a buyer might be willing to pay more.

So, in Vietnam one can have state-sanctioned property rights that are not necessarily enforced by the courts and registration institutions which are the focus of international development projects. Previous studies also suggest that property rights enforcement and dispute resolution may be administered through existing state organizations which may not have been formally assigned the duty by law but serve key instrumental purposes in allowing new rights to be effectively enforced (Leaf 1994; Gillespie 1999; Kim 2004). In the case of Vietnam, because property rights are largely enforced at the discretion of lower-level bureaucrats and neighborhood block groups, the property rights of households without the

¹ More recently, the 2004 Land Law amendments separated the registration of land and housing again into two certificates. However, there is still confusion over how to implement the new certificates for housing and what color they should be ("Confusing Colour Schemes," *Vietnam News*, July 11, 2005)

BOLUC can still be enforced. One can see that given Vietnam's institutional endowments of well-documented tenancy and an extensive, decentralized bureaucracy, these alternative registration and enforcement mechanisms are the least costly way to enforce the new property rights.

POLITICS AND SOCIAL NORMS ABOUT PROPERTY IN THE NORTHERN AND SOUTHERN REGIONS OF VIETNAM

As explained above, decentralized government bureaucracies can exercise discretion in law enforcement. While the laws and government structure are identical throughout the whole nation, any researcher in Vietnam cannot escape the often mentioned sentiments about differences between northerners and southerners. This is not surprising given its political history but the differences are also cited as deep seeded cultural ones. These differences manifest themselves in property relations as well. This section summarizes some of the differences in politics and social norms between Vietnam's northern and southern regions as described by the secondary literature and interviews with government officials, business leaders, and citizens in both regions in 1997, 2000-2001, and 2003².

With its history as the epicenter of the communist revolution and state power, it is not surprising that the north is generally known as being more rigid about following rules and procedures and that practices have not changed as quickly with the transition to a market economy (Dapice, CNguyen et al. 2004). According to interviews with private developers who investigated setting up shop in the north, Hanoi does not have comparable open entry into the market. Because land supply and development is so dominated by political elites and preferential treatment is given to state-owned companies large-scale private developers do not exist. Constricting market supply typically induces higher house prices. Political economy theory is especially helpful in explaining the situation in Hanoi. Since political elites can dominate market share through control of land supply, it is in their best interest to keep prices high through enforcement of the formal property rights laws not only for state legitimacy but personal gain. Thus, the political interests to maintain strict adherence to rules and the social norms of following rules are not only complementary but reinforcing.

In contrast, although the highest positions in government are appointed by the communist party in the north, the bureaucracy in the south has generally been more pragmatic than legalistic (Fforde and de Vylder 1996). For example, HCMC experimented with pilot programs such as the one-stop office to rationalize and expedite procedures for obtaining land development permits instead of trying to negotiate the maze of multiple bureaus. This is not surprising considering that social attitudes are generally more lax about formal rules which complements the entrepreneurial culture of Ho Chi Minh City. Accordingly, hundreds of private land and housing development firms have formed in HCMC within the last ten years (JBIC 1999) and entrepreneurs interviewed confirm open entry into the market. The south has more of a consumer culture and the concept of marketing has been adopted more readily, fueling market demand, whereas people in the north are characterized as savers and investors³. The social norms about economic transactions typically involve less ideology about dual-pricing and stigmatizing profit-making and consumption. The consumer culture in the south plus a greater readiness to transact with strangers and to make new social networks has helped to expand both supply and demand in the south which has translated into a larger market and greater competition. Market competition should also induce lower house prices relative to an oligopolistic situation like Hanoi's housing market. Furthermore, there is a pervasive norm in the south to be relaxed about most things, including following rules which complements the way the bureaucracy operates in the south. And so it is not surprising that such a large percentage of property disputes are settled through neighborhood block groups and ward levels of government.

In summary, there are several ways that both differences in political interests and social norms would suggest that property rights might be operationalized differently in Hanoi and HCMC. We would expect that despite lower median incomes, house prices to be higher in Hanoi because of the constricted supply

2 Interviews included representatives from various levels of government: General Department of Land Administration, Chief Architect's Office of HCMC and Hanoi, Hanoi Authority for Planning and Investment, Department of Housing and Land Administration of HCMC, several district and ward government offices in HCMC, Institute for Economic Research, National Center for Social Sciences of Vietnam, Hanoi and HCMC Architectural Universities. Private sector interviewees included managers from several international and domestic private land development companies which have attempted projects in both Hanoi and HCMC as well as other cities, the Asia Commercial Bank, and private law firms. International development agencies engaged in land related projects were also interviewed: United Nations Development Program, Swedish International Development Cooperation Agency, United Nations Development Organization, World Bank.

3 The increase in consumerism and market savviness in the south is often written about in the media. For example, "The consumer revolution," Vietnam Investment Review, April 1, 1996, issue 233. The comments about saving and spending proclivities were also raised in interviews with the managers of one of Vietnam's largest private banks, Asia Commercial Bank that takes more deposits from the north and makes more loans in the south.

through more restrictive property regulation practices and monopoly of land supply by political elites. We would also expect the Hanoi market to value legal property rights more than the south because of the greater levels of enforcement whereas the south should be more lenient to alternative forms of documenting property rights. The next section investigates the empirical evidence to see if this is the case.

EMPIRICAL FINDING A: DIFFERENCES IN LANGUAGE AND HOUSE PRICES

Given the differences between the politics and social norms in the north and the south, this paper investigated whether there were differences in how private house sellers in Hanoi and HCMC operationalize the new private property rights instituted by the government. Many variables are held constant since the two cities are in the same country with a uniform legal and government administrative structure and because both markets expanded rapidly during the same time period. For data, this study turned to where market transactions begin: the private listings of houses for sale in the local newspaper. Using issues of *Mua va Ban* (literally translated “Buy and Sell”), a popular classified advertisement newspaper that has both a Hanoi and HCMC edition, I culled advertisements from the March-June 2004 issues⁴. These advertisements contain an amount of detailed information that is rare for most developing countries and makes it possible to apply a hedonic price model. I was able to have the General Statistics Office reparse the 1999 census data down to the ward level so that I could attach neighborhood characteristics. I selected all ads that at least listed a price, the house size, and the name of its ward (Please see appendix for more details).

. Table 1 presents a comparison of descriptive statistics for the houses on the market in Hanoi and HCMC. HCMC is a larger city and its housing market is also bigger as we can see in the number of observations recorded for each city. More importantly, one can see that housing prices are higher in Hanoi than in HCMC. Both cities' housing prices skyrocketed during the years of reform. In reviewing the amenities of the houses listed, we do not find major differences in the quality of housing being offered for sale between the two cities. However, the price per square meter of housing in Hanoi is more expensive than in HCMC even though Hanoi's median household income level is only about two-thirds of HCMC's. The prices of housing units are more than double. Given that the median size of a house's footprint is similar in both cities, we can see that housing in Hanoi is much denser than in HCMC. The high prices and density further suggest the land supply constraints in Hanoi's housing markets discussed earlier.

One of the most interesting aspects of this data source is that of the 5162 observations, nearly all of them make reference to some kind of property rights status. However, despite a national legal framework, the property rights terms commonly used by house sellers in Hanoi differ from those used in HCMC. As explained in the previous section, having the BOLUC or “pink certificate” is the most recent and secure form of tenure and therefore the BOLUC should be the most valuable form of property right in the housing market. Having a pink certificate also means the seller has invested time and money in obtaining the title which should be compensated in the sales price. Certainly, transferring ownership of property with a pink certificate is much easier since they are only issued if there are no outstanding property disputes. However, while the government has decreed that every house must obtain a BOLUC, most properties do not have it.

In HCMC, there are two property rights terms most commonly used to refer to formal title: “Chu quyên tu nhuan” loosely translated “ownership certificate” and “Chu quyên hong” or “pink certificate”. In the early years of the real estate market, “private ownership” was the more common term used in advertisements. It was a lay term that emerged to refer to a certificate of house ownership issued by the government to an individual. However, starting in 2002, the “pink certificate” became the more commonly used term. It is less ambiguous which document the seller has and advertises the “highest value legal document” explains a Vietnamese property lawyer. As seen in Table 1, 69.3% of the listed properties claim possession of the pink certificate.

What is even more fascinating is that Hanoians use a different term for property rights: *so do*, which can be loosely translated into “red certificate”. These documents existed since 1994 and certify an occupant's right to use the land on which the house is located. The latest regulations require a pink certificate to combine house ownership and land use right into one document for urban areas while the red certificate is still used for agricultural land. Key informants confirm that Hanoians are referring to the BOLUC when they use the older term, giving further indication of the slower pace of change in the north. Interestingly, unlike the HCMC ads, many sellers in Hanoi also use the term “*cho so do*” which means

⁴ A multi-year data set would have been desirable. However, the archives for the Hanoi edition were destroyed in a flood so previous years issues were unavailable.

they are “waiting for red certificate” after having submitted their application. It could be that there is a greater backlog in the issuance of BOLUCs in the north. It could also be that Saigonese are being looser in their claim of possessing the BOLUC while they are still waiting for its issuance. In any case, only in the north is the distinction so commonly made which again indicates a greater formal exactness with practices in Hanoi. We would expect to see some difference in the market value between those claiming they have the BOLUC and those that are waiting for it.

There is one type of term that is commonly used in both the north and the south. “Giay to hop le” is a vague term which literally translated means “papers in accordance to regulation” or more loosely “legal papers”. These papers include the variety of documents which can be used to apply for the pink certificate. There are also many derivations of this term used in the ads referring to specific legal papers such as building permits, the old housing permits, etc., but for the purposes of this study, all of these were grouped into a single “legal papers” category because the listers are mentioning them as some proof of ownership right but according to the law they have less standing than the pink certificate. Surprisingly, despite the differences in the scale of markets and histories, both cities’ advertisements use this term with similar frequency: 22.5% in Hanoi, 23.9% in HCMC.

We see that while economic factors such as large potential gains from skyrocketing demand can provide incentives for a systemic change to private property rights, the vocabulary for the new private property rights in the two markets have evolved differently: “Pink certificate” and “ownership certificate” in the south and “red certificate”, “waiting for red certificate”, and “owner” in the north. This study next investigates whether these linguistic differences also have economic significance. Given differences in the political economy, bureaucratic culture, and social norms around property and in the property rights terms used in Hanoi and HCMC, we would expect to find some interesting differences in how the two markets value Vietnam’s new private property rights.

EMPIRICAL FINDING B: DIFFERENCES IN MARKET PRICING OF PROPERTY RIGHTS

This study analyzed the data described in the previous section using a standard hedonic price model which shows the market value for each of a property’s characteristics (Box and Cox 1964; Rosen 1974; Goodman and Kawai 1984)⁵. It is unusual to have sufficient data from a developing country to be able to apply the hedonic price model. We are also fortunate to be able to enter property rights variables into the model to find their relative value.

Table 2 shows the result of the base models for Hanoi and HCMC. The models have a good fit with all the signs of the variables in the expected direction. Property prices generally fall the farther houses are located away from the city center and generally rise with more floor area, street frontage, and living amenities. The coefficients are also similar to those of a previous study that used data from a different newspaper source, further indicating the robustness of the model (Kim 2004).

However, the explanatory power of the HCMC models at $R^2 = 0.586$ is higher than for the Hanoi models at $R^2 = 0.467$. Furthermore, in the Hanoi model, the variable that measures the distance from the city center is insignificant, while having the appropriate sign. This variable is one of the most important characteristics that should appear in the urban land price patterns that has transitioned away from a centrally planned economy to a market system (Bertaud and Renaud 1995). By contrast, in HCMC’s market, house prices decrease by 11.7% for every kilometer away from the central business district (CBD). This could be in part because Hanoi is a smaller and denser city and thus distance could play less of an important role. As shown in Table 1, most of the properties in Hanoi lie about 4 kilometers from the center with a standard deviation of only 1.72 kilometers whereas HCMC properties were typically 5 kilometers away with a standard deviation of 2.54 kilometers. And we do see that the variable *fringeq* is significantly negative indicating that prices do fall at Hanoi’s urban fringe. Still, we would expect to find the market to value distance in a more graduated fashion.

In further comparing the base models of Hanoi and HCMC we also find some other important differences. One is that when city district dummies were entered in the Hanoi model to further account for a house’s neighborhood value, only two of them were significant. Still, they were all included in the model because they increased its explanatory power. However, in the HCMC model, most district variables were significant commanding higher premiums than others even after holding other location variables constant (whether they were in the CBD or city periphery and their distance from the CBD). The significance of the district dummy variables and of the distance to CBD variable indicates that Ho Chi Minh City’s market values a property’s location more sensitively than Hanoi’s. One of the other

⁵ For more detailed and technical discussion of the specification of the models used in this study, please refer to Kim, 2004.

observations we could make about the descriptive statistics in Table 1 is that Hanoi ads do not advertise their other locational attributes as much as in HCMC (such as proximity to schools and markets). These findings are significant because location is one of the most valuable attributes of a house in a market economy. The lower explanatory power of the Hanoi model and the insignificance of location variables suggest that Hanoi's housing market is still somewhat atypical of other markets. This coincides with the arguments made earlier about the differences in supply constraints and/or the market savvy social norms between Hanoi and HCMC.

The key variables of interest in this study surround property rights. As explained previously, laws and regulations about property rights are uniform nationally in Vietnam. But, we have observed differences in how lay terms used for property rights have evolved between the north and the south. Earlier I contend that the slowness to linguistic change in Hanoi is indicative of its society's receptiveness to economic transition in general. And now we investigate if they have statistical significance.

Table 3 shows the results for Ho Chi Minh City and Table 4 shows the results for Hanoi. The property rights variables were entered step-wise to the base models in Table 2. As we would expect, both Hanoi and HCMC models show that the seller who explicitly communicates possessing the BOLUC (a pink or red certificate) can ask the highest offer price. Hanoians can ask a 13.6% premium while sellers in HCMC can ask around 15.1% more if they have already obtained the pink certificate. In HCMC, the term that was used more commonly only two years earlier, "ownership certificate", could no longer command as high a value as "pink certificate" at 4.3%. Similarly, in Hanoi, while a seller states they are the "owner" offers their house at a 9.5% higher price, it cannot command as much as when one claims the red certificate.

The most tell-tale indicator of significantly different operations of property rights between the two cities is in the case when more ambiguous terms are used. The two markets have opposite signs on the coefficients for the term "legal papers". In Hanoi, citing the possession of legal papers has a negative effect on offer prices. Also, claiming that one is "waiting for a pink certificate" is not statistically significant to the 95th percentile. It appears that the Hanoi market is less tolerant of ambiguous property rights. Sellers without the final certificate should expect to lower their prices. However, Ho Chi Minh City is a different story. "Legal papers" is significantly positive and can still command a 7% premium over not advertising possession of any papers.⁶

Investigating Alternative Hypotheses

The main finding of this model concerns difference in how the two markets value "legal papers" over formal title; the coefficient is negative in Hanoi and positive in HCMC. The contention of this paper is that social norms and politics play a large part in accounting for this difference.

In considering other variables that could be in the error term, it could be that instead of the institutional environment, the properties with informal title in Hanoi are somehow different than those in HCMC. One hypothesis could be that such houses in Hanoi are of lower quality than in HCMC and that the legal papers variable is picking up the effect of lower valued housing. However, as the descriptive statistics showed, the amenities of the houses in the Hanoi sample are similar to the HCMC sample. Table 4 shows that there is no significant correlation between any of these amenities and the legal papers variable in either city except for having a landline telephone.⁷

Alternatively, instead of the house itself, it could be that houses with informal property rights in Hanoi are located in neighborhoods with lower housing values than in HCMC. The percentage of low quality housing stock in the house's ward is positively and significantly correlated with legal papers in Hanoi while it is insignificant in HCMC. However, the percentage of low quality housing is not only very low but similar between the two cities. In examining the frequency distribution, within the 25th and 75th percentiles, the percentage of a ward's housing stock of low quality ranges from 2-6% in Hanoi and 0-5% in HCMC. So it must be some factor besides low quality housing in a ward that is decreasing the value of properties with legal papers in Hanoi.

6 As one can imagine, one could refer to their red or pink certificate as a legal paper. Previous research has indicated that despite the loose, non-technical term, the market can distinguish between them and value them accordingly (Kim 2004). One would expect that sellers who have a stronger form of ownership documentation would be more specific about having the pink certificate and ask for a higher price given the low levels of certificate distribution. In any case, if a seller used the vaguer "legal papers" term for the pink certificate, the relative value for the pink certificate in the model would be biased downward and therefore be a more conservative test.

7 This is not a major issue given that Vietnam has had explosive growth in cell phone usage.

Beyond housing and neighborhood characteristics, one might question if there is something structurally different about Hanoi's housing market. For example, the percentage of high quality housing in the Hanoi sample's wards is higher than in HCMC; 55-69% versus 14-36% between the 25th and 75th percentiles. One could hypothesize that because the percentage of high quality housing in a ward in the Hanoi sample is higher, the market might discriminate against properties with only legal papers instead of formal title. However, the negative correlation between the high housing quality variable and the legal papers variable in Hanoi is not significant.

Curiously, high housing quality is positively and significantly correlated with the legal papers variable in HCMC. This raises the question as to why the houses in nicer neighborhoods in HCMC are not getting the pink certificate. And, more importantly why is it not a liability HCMC's market to offer legal papers like it is in Hanoi, given that the distribution of certificates are similarly backlogged in both cities. Apparently, buyers in HCMC are willing to pay extra for these ambiguous property rights.

This again leads to my argument about the importance of social norms and local enforcement institutions in shaping how property rights evolve. As one key informant explained, the benefit of buying property in HCMC without the pink certificate is worth the risk, especially if one is planning to resell it quickly because real estate prices have been rising rapidly. But, this classic Demsetzian explanation is only made possible through HCMC's particular institutional context. The economic benefit can be realized because it is normal for people to transact without the pink certificate in the market – it will not impede the sale. The benefit also exists because the property rights risks can be lowered with just legal papers because they are still recognized by the neighborhood block groups and ward levels of government.

In the north it must be expected to transact with some proof of property right because otherwise no seller would advertise legal papers if it would bring down their asking price. However, in the south, it seems that advertising legal papers is still better than offering nothing.

One problem in studying the market value of title involves endogeneity. While a title might add value to a property by increasing its property rights security and mortgageability, owners of more valuable properties might tend to pursue the cost and trouble of obtaining title to protect their asset.

Endogeneity is not an overwhelming concern in this case for two reasons. First, value-driven endogeneity of titling is tempered by factors which indicate that the cost of titling appears to be either independent of or negatively correlated with the value of the property. As discussed earlier, the likelihood that a house has a title depends on many things besides a person's initiative: possession of the correct legal papers, fees charged by the government, and the administrative capacity of the property's ward and district. The likelihood that the owner has the proper legal documents is greater the older the house is and the longer the owner's tenancy has been. If one possesses the acceptable legal papers and has continuously occupied the house, receiving the BOLUC is administratively easier and less costly. This implies that older houses, which have consistently been correlated with lower property values in previous studies (Adair, Berry et al. 1996; Malpezzi 2002). However, while older houses might not be in prime physical condition, they are more likely to be located in the city center giving them higher redevelopment value and increasing the likelihood sellers of these properties will pursue the BOLUC. But, we see in Table 1 that the majority of properties are not located in the central business district but are located on average 4-5 kms away from the city center. Fortunately, our data allows us to include location and neighborhood housing quality variables in the model to separate out some of these effects. Furthermore, titles for newer houses carry significantly higher fees. Vietnam abolished the land use levy charged for properties built before 1980 and reduced it to 20% of official land prices for houses built between 1980-1993, while houses built more recently have to pay 100% of official land prices. Cost of titling should also be less of an issue also for the near future since the state now allows a deferred payment schedule over ten years for lower-income households. Therefore, lower valued property owners do not necessarily have less incentive to attain the BOLUC.

Second, a primary interest of the study is to examine the value of legal papers as a property right. Even if having a title is endogenous, this should not affect the coefficient on *legal papers*. As was discussed in detail in the institutional context section, the probability of a seller possessing legal papers is related to factors that are independent of a property's value.

WHY THE NORTH AND SOUTH DEVELOPED DIFFERENT WAYS OF OPERATIONALIZING AND PRICING PROPERTY RIGHTS: IMPLICATION OF FINDINGS

In light of the empirical findings, we can make several observations. This study took advantage of the natural experiment situation in which the same legal reforms were applied across the country. It also

took advantage of the availability of data to employ a standard hedonic price model to find statistical evidence of variation in how formal legal reforms were adopted in two Vietnamese cities. The Demsetzian literature would have predicted a change to private property rights in Vietnam, only if one took an ecumenical view of institutions. As housing demand skyrocketed with transition, large economic gains could be achieved through a private housing market. But, it is the old communist institutions that helped to mitigate the start-up and transaction costs involved in establishing a private property rights regime. The household registration system helped to establish stable and documented tenancy at the onset of transition. The neighborhood block groups and ward administrations increasingly took on the task of adjudicating property disputes, as they had already been involved in many household level economic matters and had better information about local residents. Meanwhile, legislative reforms, title registration and cadastral survey institutions, courts, and the legal profession, institutions with high start-up costs, have been developing more slowly. One could argue that in the interim, the emergence of new private property rights took the most cost-effective path given Vietnam's institutional endowment of a communist bureaucracy. Although title was not well distributed and legal institutions are weak, the private housing market has taken off in both cities, beguiling international indicators that Vietnam has some of the most inappropriate private property rights institutions amongst all countries.⁸

This study also finds that despite a centralized political system and the nation-wide legal reforms, property rights evolved differently in Vietnam's two leading cities. The cost-benefit model of institutional change is not only inadequate in explaining the process by which private property rights change but also the resulting forms and market value of new private property rights. While economic forces did impel a change to private property, Hanoi's market has been slower to adopt changes and is less tolerant of legally ambiguous property rights than HCMC's despite the north's even greater level of housing demand. This paper argues that because government control and social norms are more rigid about following rules, property owners are penalized by the market for claiming "legal papers" or "waiting for pink certificate" instead of having the final certificate. In Hanoi's economy with a housing shortage we would have expected to see increased informality but the political economy and social norms shaped it otherwise.

In examining the emergence of private property rights and housing markets in Hanoi and HCMC, we see that not only costs and benefits mattered. This paper argues that in Hanoi, the political economy dynamics of powerful political elites, assisted by social norms about following the formal law has contributed to the relatively slow emergence of a competitive housing market. We have found that housing prices are higher, that the market does not behave like a typical housing market nor as predictably, and in fact penalizes for legally ambiguous property rights. That is, the smaller group who holds private property gains while society as a whole pays higher housing prices.

Meanwhile, in HCMC, where the change to private property rights and a housing market took off readily, the benefits to be had by a change in property rights systems were assisted by the social norms that encourage pragmatism and consumerism and local bureaucratic institutions that serve as unofficial enforcers of the new property rights. We found sellers could use a variety of forms and terms for property rights and the market could price the risks accordingly. It was also able to distinguish the value of a property's location and amenities better than the north. The irony here for policy circles is that the looser, free-wheeling, less law-respecting norm about property rights is an important part of how the South's private real estate market has been able to expand so rapidly. In the current global trend to privatize housing, we should expect to see even greater variation in outcomes between countries with greater differences in social norms and political institutions.

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⁸ Unlike typical developing countries, the real estate market in Vietnam is not characterized by a dual formal and informal market. Rather, one of the main points of this study is that the mainstream real estate market in Ho Chi Minh City has properties with a range of conformance to the newly introduced laws and regulations. What made it possible to bring them to the market was the range of enforcement institutions available.

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TABLES

Table 1. DESCRIPTIVE STATISTICS: COMPARISON BETWEEN LISTINGS IN THE NORTH AND SOUTH, 2004

HANOI						Ho Chi Minh City					
Prices	n	median	stdev	min	max		n	median	stdev	min	max
price in gold <i>taels</i> *	19	282	217	70	850	price in gold <i>taels</i> *	2939	135	162	17	1595
Price in million VND	1339	980	1218	130	12500	Price in million VND	552	380	576	100	8500
All Prices in VND/sqm	1632	10	15.33	1.34	222	All prices in VND/sqm	3541	9.43	10.92	0.68	175
House Characteristics											
number of stories	1864	3.0	1.40	1	6	number of stories	3476	2.0	1.03	1	7
Floor area in sqm	1864	110.0	95.96	10	675	Floor area in sqm	3541	90	90	11	672
Distance to CBD in km	1632	4	1.725	1	13	Distance to CBD in km	3541	5.175	2.54	1	16
Amenities	n	mean	stdev	min	max		n	mean	stdev	min	max
street facing	132	0.071	0.257	0	1	street facing	677	0.191	0.393	0	1
water	1864	1.000	0.000	1	1	water	3439	0.971	0.167	0	1
electricity	1864	1.000	0.000	1	1	electricity	3541	1.000	0.000	1	1
telephone	1856	0.996	0.065	0	1	telephone	3388	0.957	0.202	0	1
toilet	1863	0.999	0.023	0	1	toilet	3541	1.000	0.000	1	1
proximity to market	67	0.036	0.186	0	1	proximity to market	668	0.189	0.391	0	1
proximity to school	22	0.012	0.108	0	1	proximity to school	580	0.164	0.370	0	1
Property Rights											
<i>Red certificate</i>	1139	0.611	0.488	0	1	<i>Pink certificate</i>	2445	0.691	0.462	0	1
<i>Waiting for red certificate</i>	212	0.114	0.318	0	1						
ownership	336	0.180	0.385	0	1	<i>Ownership certificate</i>	182	0.051	0.221	0	1
Legal papers	427	0.225	0.418	0	1	<i>Legal papers</i>	846	0.239	0.427	0	1
Total n	1632						3541				
Ads mentioning property rights	1622						3482				

Table 2. COMPARISON OF HO CHI MINH CITY AND HANOI BASE MODELS

Source: Author

Dependent variable is In house prices in Vietnamese dong (VND)

HCMC Model Estimation Method	Base Model semi-log	Hanoi Model Estimation Method	Base Model semi-log
Constant	5.073	Constant	5.746
Distance to CBD	-0.117 (-4.667)	Distance to CBD	-0.012 (-0.317)
Floor Area in sqm	0.537 (47.480)	Floor Area in sqm	0.502 (25.634)
Street facing house	0.251 (22.260)	Street facing house	0.306 (16.787)
School	0.038 (3.444)	Telephone	0.041 (2.281)
Pct Housing Quality High	0.116 (6.254)	Pct Housing Quality Low	-0.110 (-4.612)
Education Rate High	0.078 (3.781)	Education Rate High	0.114 (4.600)
<i>District Dummies</i>		<i>District Dummies</i>	
CBD	0.023 (1.166)	CBD	-0.004 (-0.141)
Urban Fringe	0.031 (0.509)	Urban Fringe	-0.081 (-3.200)
District 1	0.255 (3.215)	District Ba Dinh	0.112 (4.737)
District 2	0.071 (1.922)	District Cau Giay	0.055 (2.157)
District 3	0.313 (3.147)	District Hai Ba Trung	0.018 (0.645)
District 4	0.186 (2.711)	District Hoan Kiem	0.030 (1.143)
District 5	0.252 (3.139)	District Hoang Mai	-0.037 (-1.398)
District 6	0.277 (3.370)	District Tay Ho	0.106 (4.180)
District 7	0.165 (2.519)	District Thanh Xuan	-0.029 (-1.151)
District 8	0.238 (2.483)	District Than Tri	0.001 (0.072)
District 9	0.079 (2.348)		
District 10	0.339 (3.151)		
District 11	0.313 (3.228)		
District 12	0.100 (1.746)		
District Binh Tan	0.087 (1.977)		

District Binh Thanh	0.390 (2.845)		
District Go Vap	0.311 (2.221)		
District Phu Nhuan	0.340 (2.873)		
District Tan Binh	0.469 (2.938)		
District Tan Phu	0.242 (2.675)		
District Thu Duc	0.079 (2.000)		
Adjusted R ²	0.586	Adjusted R ²	0.467

Notes: Coefficients are standardized Betas; T-stats in parentheses. District Binh Chanh was excluded from the HCMC model and District Dong Da was excluded from the Hanoi model. Observations entered: n1=3,537, n2=1,631.

Table 3. HO CHI MINH CITY PROPERTY RIGHTS MODELS

Source: Author

Model Estimation Method	Model 1 semi-log	Model 2 semi-log	Model 3 semi-log
Constant	5.108	5.058	4.940
Distance to CBD	-0.118 (-4.721)	-0.119 (-4.772)	-0.120 (-4.791)
Sqm House	0.537 (47.539)	0.537 (47.510)	0.536 (47.502)
Street	0.251 (22.239)	0.251 (22.295)	0.250 (22.178)
School	0.039 (3.581)	0.038 (3.511)	0.039 (3.555)
Housing Quality High	0.116 (6.264)	0.117 (6.298)	0.116 (6.256)
Education Rate High	0.077 (3.750)	0.078 (3.794)	0.077 (3.760)
District and Location Dummies Entered	yes	yes	yes
Pink Certificate	.039 (3.487)	0.054 (2.890)	0.110 (3.794)
Legal Papers		0.019 (1.040)	0.070 (2.556)
“ownership certificate”			0.043 (2.521)
Adjusted R ²	0.587	0.587	0.588

Notes: Coefficients are standardized Betas; T-stats in parentheses. n=3,537.

Table 4. HANOI PROPERTY RIGHTS MODELS

Source: Author

Model Estimation Method	Model 1 semi-log	Model 2 semi-log	Model 3 semi-log	Model 4 semi-log
constant	5.758	5.799	5.807	5.647
Distance to CBD	-0.013 (-0.340)	-0.010 (-0.277)	-0.007 (-0.177)	-0.006 (-0.150)
Sqm House	0.482 (24.762)	0.481 (24.813)	0.488 (25.229)	0.489 (25.274)
Street	0.302 (16.789)	0.301 (16.799)	0.292 (16.289)	0.291 (16.256)
Telephone	0.035 (1.950)	0.033 (1.830)	0.031 (1.758)	0.031 (1.767)
House Quality Low	-0.098 (-4.128)	-0.096 (-4.061)	-0.091 (-3.863)	-0.091 (-3.891)
Education Rate High	0.120 (4.901)	0.122 (5.026)	0.118 (4.881)	0.119 (4.900)
District and Location Dummies Entered	yes	Yes	Yes	Yes
Red certificate	0.132 (7.039)	0.070 (2.806)	0.083 (3.347)	0.134 (3.062)
Legal papers		-0.092 (-3.776)	-0.064 (-2.584)	-0.019 (-0.478)
Owner			0.087 (4.487)	0.046 (1.402)
Waiting for red certificate				0.493
Adjusted R ²	0.483	0.487	0.493	

Notes: Coefficients are standardized Betas; T-stats in parentheses. n=1,631.

Table 5. CORRELATIONS BETWEEN HOUSING QUALITY VARIABLES AND "LEGAL PAPERS"

Source: Author

	Hanoi	HCMC
Water	a	-.018 (.275)
Electricity	a	a
Toilet	-.046 (.064)	a
Telephone	-.064 ** (.009)	.020 (.238)
Low quality housing in ward	.062 * (.013)	.014 (.405)
High quality housing in ward	-.007 (.791)	.047 ** (.005)

T-stats in parentheses.

a = the correlation could not be calculated because the variable is constant.

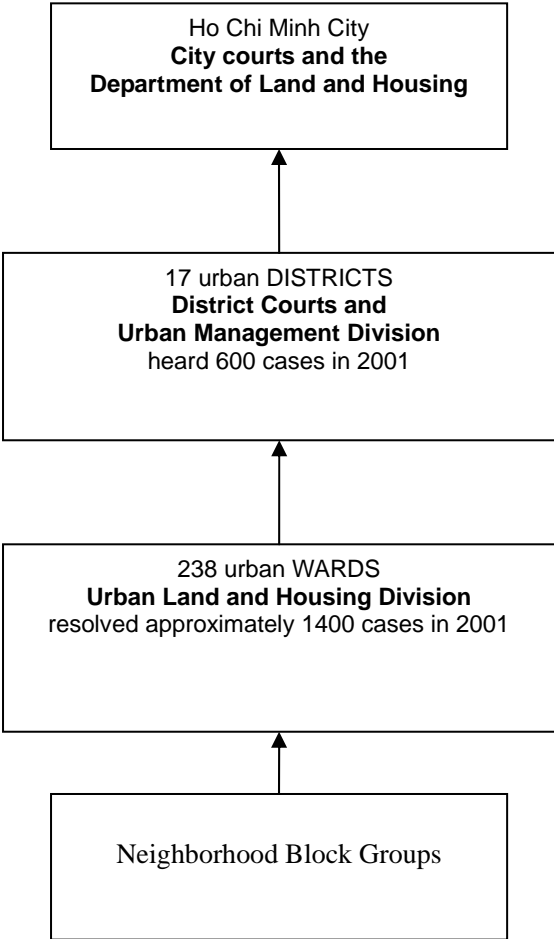
* Correlation is significant at the 0.05 level (2-tailed)

** Correlation is significant at the 0.01 level (2-tailed)

FIGURES

Figure 1. LAYERS OF STATE INSTITUTIONS THAT ENFORCE PROPERTY RIGHTS IN HCMC, 2001

Source: Author



APPENDIX: NOTES ON THE DATA

Assistants entered information for the listings. Only listings which provided the name of the property's ward were entered because socio-demographic variables could be attached to the observations. A complication is that since the 1999 census, the jurisdictional boundaries of some of the wards in the urban fringe areas were redrawn. For new wards that were completely within the boundaries of former wards, census data of the former wards were applied. Any questionable observations were removed.

The listed property prices came in two currencies. Prices in HCMC were usually quoted in gold luongs while most in Hanoi were quoted in millions of dong, the Vietnamese paper currency (see Table 1). All prices were converted into Vietnamese dong using the current official exchange rate taken from the newspaper for that particular date. I removed outlier observation that had prices less than 100 million VND and great than 16,000 million VND.

Past hedonic price model studies of real estate have found certain variables consistently significant and large determinants of real estate values so it was important to have data for these variables in order to ensure enough explanatory power in the model. The variable Distance to CBD, was calculated by first identifying the property's ward amongst the 238 possible urban wards. A geographical midpoint was inputted in GIS software for each ward's jurisdictional boundaries and then a straight-line distance was calculated from the ward's midpoint to the city's downtown central business district in kilometers. This number was rounded to the nearest whole kilometer.

A house's size, specified by Floor Area, is also a major determinant of price. Only ads which stated the square meter floor area of the house were collected. I removed outliers beyond two standard deviation for each city. In the end, 1632 number of observations were collected for Hanoi and 3541 number of observations for HCMC.

There are some drawbacks to this source of data. We cannot see what the actual transaction prices are or whether they sell at all. Most probably, listed prices will tend to be inflated to allow room for negotiation. The prices may also be higher due to sample bias. The people who can afford to buy a classified advertisement may not represent the average market seller and may tend to list higher end properties. Is so, one could theorize that property rights is more important for this market segment than lower income households with less options. On the other hand, many of the listers are avoiding broker fees and therefore may be able to offer lower prices. So, in the interpretation of the findings, it is important to keep in mind that the findings apply to this market segment. Another possible problem is the variation amongst the sellers in terms of the expertise and knowledge they have about the market. I attempt to smooth out these biases by taking a large random sample to find variables that are consistently significant. Related to this, it is possible that a seller could possess legal papers or a certificate but not have advertised it in the listing. If this were the case however, the property rights coefficient would understate the effect of property rights on prices. In order to check how feasible the listings were as a data source, field assistants called listers to enquire about properties and found that the sellers were open to discussing properties and the form of tenure they had, inviting the assistants to come and see the documents and property. While we cannot substantiate their claim through this method, still we assume the sellers would not be able to maintain the offered price level when a buyer investigates the claim themselves. In any case, the thousands of listings made voluntarily by sellers in the newly emerged real estate markets provides a rich data source without the problems of survey instruments. What we can find are the sellers' perceptions of what they can ask for in the market and how property rights impacts this. We are assuming supply is responsive to demand because of the large numbers of competitors and the free entry and exit into the market.