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VIETNAM NATIONAL UNIVERSITY, HANOI

MASTER IN INTERNATIONAL BUSINESS

THESIS SUMMARY

**"Foreign Direct Investment in Real Estates
in Vietnam"**

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LIST OF CONTENT



Introduction	3
i. Rationale of Thesis	3
ii. Research Objective	3
iii. Methodology and Data.....	3
iv. Structure of Thesis	4
Chapter 1: Theoretical Background	5
<i>1.1. Foreign Direct Investment.</i>	5
<i>1.2. Real Estates.</i>	5
<i>1.3. Foreign Direct Investment Strategy in Real Estates.</i>	7
Chapter 2: Foreign Direct Investment in Vietnam Real Estates	9
<i>2.1. Foreign Direct Investment in Vietnam Economy.</i>	9
<i>2.2. Real Estates Sector in Vietnam Economy.</i>	9
<i>2.3. Foreign Direct Investment in Vietnam Real Estates.</i>	10
Chapter 3: Foreign Direct Investment Strategy in Vietnam Real Estates	13
<i>3.1 . Foreign Direct Investment Strategy in Vietnam Economy.</i>	13
<i>3.2 . Foreign Direct Investment Strategy in Vietnam Real Estates.</i>	14
<i>3.3. Case Study: Capitaland Strategy in Real Estates in Vietnam.</i>	15
Conclusion	16

Introduction



i. Rationale of Thesis

The real estates are one crucial sector in an economy, for both advanced and developing economies.

Recently, the foreign capital flows into real estates sector have always ranked as top receiving sectors, usually as second or third position in total foreign direct investment in the Vietnam economy. The foreign direct investment (FDI) flows directly affect the real estates sector, and also exert an impact on the Vietnam economic growth rate. And on the process of implementing the foreign direct investment, the foreign investors penetrate the real estates market with various strategies, depending on the location and timing of entering the Vietnam economy.

The combination of significant contribution by real estates sector with the prospect of increasing foreign investment opens a research gap in the strategy of foreign direct investment into the Vietnam economy. And this Master Thesis aims to fill in this gap.

ii. Research Objective

The Master Thesis aims to investigate the strategy of foreign direct investment into the Vietnam economy. In particular, the main research question is stated as follows:

Which strategies do the foreign direct investment firms employ to operate into the Vietnam economy?

To answer the main research question, the Thesis proposes the following small questions. And the clarification of these small questions will constitute the justification for the main research question.

What is the concept of foreign direct investment and real estates?

What is the theoretical mechanism underlying the foreign direct investment into the real estates sector?

How can the foreign direct investment firms operate successfully in the Vietnam real estates sector?

What are the practical implications for the strategies by the foreign direct investment firms in the Vietnam real estates sector?

iii. Methodology and Data

The research method is based on a combination of qualitative analysis and quantitative analysis. The qualitative method examines recent literature on the real estates market, focusing on the context of the Vietnam case as one developing economy. Then the quantitative method examines the dynamic pattern in the strategies carried out by the foreign direct investment firms in the Vietnam real estates sector.

The research data is an annual time series sample of FDI inflows into Vietnam's real estates sector in the period 2006-2022.

With the collected data, the article calculates the correlation coefficient between the amount of FDI invested in the real estates sector with the economic growth rate over time.

Pearson correlation coefficient (Pearson correlation coefficient, symbol r) (Wooldridge, 2015).

With, the collected values of two variables x and y , the calculation formula of the correlation coefficient is as follows:

$$r = \frac{N\sum xy - (\sum x)(\sum y)}{\sqrt{[N\sum x^2 - (\sum x)^2][N\sum y^2 - (\sum y)^2]}}$$

iv. Structure of Thesis

The Master Thesis intends to carry out an outline with the main idea in each chapter as following.

Introduction.

The section discusses the motivation and associated overview of the Thesis on the foreign direct investment into the Vietnam real estates.

Chapter 1: Theoretical Background.

The chapter presents the theory about the foreign direct investment and the real estates investment strategy. It examines both the recent theoretical and empirical evidence on the foreign direct investment into the real estates sector.

Chapter 2: Foreign Direct Investment in Vietnam Real Estates

The chapter deals with the current situation of foreign direct investment into the Vietnam real estates sector with a dataset of Vietnam over 2010-2022. The main trends and key stylized facts about the foreign direct investment would be the focal points in this chapter.

Chapter 3: Foreign Direct Investment Strategy in Vietnam Real Estates

The chapter investigates the strategies implemented by the foreign direct investment firms when they enter and operate in the Vietnam economy. The content would focus on common strategies, especially regarding large foreign investment firms.

Conclusion

The section summarizes the Thesis and provides more discussion on the appropriate public policy to enhance foreign direct investment into the Vietnam real estates.

In particular, the Thesis intends to carry out an in-detail outline as follows.

Chapter 1: Theoretical Background



1.1. Foreign Direct Investment.

The capital stock is an important component of the economic growth. A country's total capital requirements are satisfied by not only the internal sources, but also the foreign sources. In particular, the Foreign Direct Investment (FDI) and Foreign Indirect Investment (FII) are the two most common avenues by which foreign investors invest in an economy.

The FDI is the source of new production activities involving many types of assets such as technology, human resources and management skills. And it is a major source of capital accumulation, which is channeled through Multinational Enterprises (MNEs) (Kim, 2019).

The foreign direct investment is a form of long-term investment by individuals or companies from one country to another by establishing production and business bases.

The distinction between direct investment and indirect investment above is relative.

Classification of FDI by investment purpose.

By investment purpose, the FDI can be classified as the horizontal integration (HI) and vertical integration (VI).

By investment strategy, the FDI can be classified as the greenfield investment (GI), and mergers and acquisitions (M&A).

Theories of foreign direct investment.

With the Open Economy Economic Growth Model, a country invests in another country if it has a higher marginal product of capital.

Foreign Direct Investment (FDI) in real estates.

Currently, the economic literature suggests that the foreign direct investment in real estates (FDIRE) will support the economic development of the host country by injecting financial resources, providing services on supply cost, quality and variety of services, creating additional competition, job creation and technology.

1.2. Real Estates.

Overview of real estates.

Until now, most countries of the world have classified property according to the Ancient Roman Law, that is, the classification of property into "Property" and "Moveable". Thus, real estates is not only land and wealth in the ground, but also all that is created by human labor associated with the land.

The real estates have different characteristics compared to other goods such as immobility, increase in value, individuality and value depending on the purpose of use.

By economic classification, the real estates is divided into the following categories. First, the residential real estates is a type of real estates used as a residence for families and individuals. Second, the industrial real estates: including factories, warehouses, industrial parks. Third, the agricultural real estates: including plantations, farms, logging forests, livestock farms, arable land. Fourth, the commercial real estates: including office buildings, commercial centers, apartments for rent, hotels, restaurants, parking lots. And for other types, the real estates used for special purposes including lecture halls, schools.

From the perspective of a Thesis, after synthesizing research results, it can be understood that the real estates market is as follows: The real estates market is a process between related parties, which is the place where the activities of buying, selling, transferring, leasing and mortgage related to real estates and services such as intermediaries, brokerage, consulting. And among actors in the market, the state management has a decisive impact on promoting development or inhibiting business activities in the real estates market.

Several classifications of the real estates market.

Based on the use of real estates can be divided into the land market, the market of commercial works, services; industrial works market; housing market; special construction market.

Based on the type of activity, it is possible to distinguish the market for buying, selling and transferring real estates; real estates rental market; mortgage market and real estates insurance; real estate service market.

The real estates market is regional, local, and cyclical. The real estates market is difficult to penetrate, imperfectly competitive, prone to monopolies and requires intermediary services. The real estates market is strongly influenced by legal factors.

The relationship of the real estates market with other markets in the economy.

The real estates market is an important market in the economy, closely related to other markets, such as the construction materials market, the labor market, the science and technology market, and especially the financial market. According to the analysis and assessment of economic experts, in developed countries, if the investment in the real estate sector increases by 1 USD, it will promote other areas of the developed economy by 1.5 - 2 USD.

The role of the real estates market.

The real estates market is one of the important markets of the economy because it is directly related to a huge amount of assets in terms of size, nature and value in the national economy.

Real estates associated with urban development.

Much of urban development is accomplished through real estates investment, involving financing, development and project management, which has long been part of the urban development process of cities and area.

The development of the real estates market contributes to mobilizing internal capital.

This is an important content that has been confirmed by many researchers. In general, they agree with the assessment that if a country has an effective solution to ensure that real estates is eligible to become a commodity and is scientifically valued, it will create a potential for that country's economy with a significant capital capacity to create a basis to promote the process of socio-economic development.

1.3. Foreign Direct Investment Strategy in Real Estates.

The multinational companies have implemented an investment strategy in international real estates based on the eclectic model (OLI). OLI stands for Ownership, Location, and Internalization. These three potential sources of advantage can underpin a company's decision to become a multinational. The eclectic model suggests that foreign direct investment (FDI) arises when three conditions are satisfied.

The investment strategy by type of enterprise in the host country.

- Joint Venture (EJV)
- Joint Venture (CJV)
- 100% foreign owned enterprise (WFOE)

Investment strategy by region and geopolitical position.

The real estates investors/developers plan and make investments in areas with good indicators, typical indicators indicated in studies such as: Political stability, GDP, indexes GDP growth, real estates market size, human resources, infrastructure, quality of national institutions and laws, liquidity of the real estates market.

Invest in a politically stable market.

Invest in a country with large GDP and GDP growth.

According to Kevin Chan (2014), besides the above factors, in their investment strategy, investors make decisions and choose investment market based on the following factors: average salary, average real estate prices, land prices, level of transport infrastructure, number of real estates businesses, tourism, bank interest rates, exchange rates.

Strategies for investing in geographical areas within each country.

In countries with converging markets with favorable conditions, real estates investors choose the most favorable areas to make investments. According to He and Zhu (2010) used panel data of 35 major Chinese cities for the period 2002-2008 to

investigate the overall association between FDIRE, local market opportunities, and natural economies. Their results show that the FDIRE is popular in large cities with larger populations, foreign investment and tourists.

Investment strategy according to the openness of the host country's market policy.

The foreign direct investment in the real estates blooms and shrinks according to the policies of the host country, such as tax policies, investment laws, policies related to land and housing.

The investment strategy associated with manufacturing, processing and manufacturing FDI.

According to another strategy, the foreign direct investment in real estate (FDIRE) is linked to direct investment in manufacturing. The FDIRE is specifically organized to meet the requirements of community development and expatriate-focused neighborhoods.

Cyclical investment strategy.

The real estates cycle is relevant, has significant and measurable effects on investment returns and risks, and is therefore of important strategic significance to investors. For national economies tied to real estates, economic cycles affect a large portion of national wealth. As in the US in 1997, the total amount of fixed reproducible tangible assets (real estates) in the US is about three times greater than the annual gross domestic product. Therefore, the link between this large percentage of national wealth and the activity of the business cycle is important (Roulac, 1999).

Distinguishing between the real estates cycle in terms of macroeconomics and microeconomics.

Macroeconomic cycle studies are defined here as those where the focus or focus of the primary cycle is at the national, international, or regional level. The general business cycle, the inflation cycle, the money cycle, the population and employment cycle, and the technology cycle are examples of cycles often categorized under macroeconomic categories. Cycles (absorption), supply cycles (construction), usage cycles, long cycles and short cycles, when studied at the regional or national level, are also considered macroeconomics for the purpose of classification target.

In contrast, the microeconomic cycle studies are defined as those where the primary cycle focuses or emphasizes on metropolitan area markets, submarkets, or real estates locations.

Chapter 2: Foreign Direct Investment in Vietnam Real Estates

2.1. Foreign Direct Investment in Vietnam Economy.

Foreign direct investment (FDI) has a direct and indirect impact on economic restructuring through channels such as:

Provide a stable source of capital for the economy, thereby changing the proportion of contribution to GDP of each industry.

Providing technology through research, development, improvement and technology transfer.

Create more jobs and improve labor qualifications, thereby increasing productivity, increasing competitiveness, and enhancing added value of the industry.

Promote export activities and expand export markets.

Directly accelerate the process of economic restructuring through diversifying economic sectors and industries, improving labor productivity.

2.2. Real Estates Sector in Vietnam Economy.

The real estates sector is important in Vietnam's economy today, which is one of the 20 economic sectors at level 1, ranked 9th in terms of value scale, has a direct relationship with most financial markets, currency, construction, business, tourism in Vietnam. In particular, the real estates industry creates a closely connected quadrilateral: Insurance - Banking - Securities - Real Estates.

The real estates is attractive for such an investment, because Vietnam has some basic advantages. First, Vietnam has political and social stability, maintaining macroeconomic stability. Second, the Vietnam economy integrates deeply into the global economy. Third, Vietnam has a very convenient geography for international traffic. Fourth, Vietnam has abundant human resources with a large working age population structure, quality is gradually improving, and incomes are getting higher and higher.

Real estates market opportunities.

Vietnam is one of the leading countries prioritized by foreign investors in the trend of restructuring global production chains.

Vietnamese real estate businesses learn a lot from foreign investors.

Macroeconomic stability and inflation are favorable conditions for the market to attract investment capital.

The construction of infrastructure, including traffic, is the driving force for other utilities, as far as roads and bridges are opened, real estates prices increase.

Legislation has been removed to develop the real estates market.

Currently, the demand for housing is still very large. Housing demand will continue to increase over time, especially in big cities. However, this demand is not

completely concentrated. in the high-end segment, which accounts for the majority of social housing and low-income housing.

Functions of real estates in Vietnam's economy.

Real estates sector has an extremely great function. Specifically, real estates sector provides a place to live for people, is a special source of means of production, and ensures the production and reproduction process.

According to Ly Dai Hung & Pham Anh Tuan (2023), in the Vietnamese economy, real estate has three main functions: a place to store wealth, a place to live for people and an economic sector that contributes significantly to the gross domestic product (GDP).

The role of the real estate market in Vietnam's economy.

The real estate market makes an important contribution to the growth of the economy.

The real estate market is an indirect driver of growth in supporting industries.

The real estate is one of the industries that create a lot of labor for the market society.

The real estate market has an important contribution to the state budget.

The real estate market helps attract foreign direct investment.

Some current issues in Vietnam real estates.

Influence from the world economic situation and Vietnam.

Supply and demand mismatch in the market.

Influence from financial problems.

Policy and legal issues.

Planning and infrastructure issues.

Information problems.

2.3. Foreign Direct Investment in Vietnam Real Estates.

The reality of attracting foreign investment into the real estate sector in recent years

Up to now, the country's FDI attraction has reached more than 440.5 billion USD, of which investment in the real estate sector has reached 66.4 billion USD, accounting for 15.1% of the total investment capital. Real estate is the second sector in attracting investment, after the manufacturing and processing industry.

In terms of localities, 45 provinces/cities have invested FDI in the real estate sector, of which Ho Chi Minh City leads the country with a total registered investment capital of over 16 billion USD, accounting for 24.7% of the total. investment capital, followed by Hanoi, Binh Duong and Ba Ria Vung Tau.

Foreign investors think that the real estate market in Vietnam with a large population is always attractive for them to pursue.

Not only targeting large-scale smart urban areas, resort real estate is also a segment where smart investors can look for opportunities to enter the market, especially in Phu Quoc, Nha Trang, Phan Thiet, Quang Ninh, Hai Phong.

In addition, there is an investment trend in the healthcare real estate segment, a very new type in Vietnam, these are mega-city projects in coastal, tourism, health, and systematic investment.

Types of real estate and investment locations of FDI flows.

The FDI projects in real estate are mainly concentrated in two cities, Ho Chi Minh City and Hanoi.

Urban housing is the segment that receives the most attention from investors. Infrastructure, industrial and logistics projects are smaller in number, but they have also increased rapidly in recent times.

In addition, the types of real estate that have been operated including office buildings, apartments for rent with good locations, good operating and maintenance conditions, and long land use periods are always preferred investment properties. Suitable for foreign investors who tend to seek long-term and stable cash flow.

Recreational and resort real estate development is spread throughout Vietnam, stretching in coastal areas, with a large concentration such as in Da Nang and Quang Nam, this may be due to the attraction of natural properties.

The FDI in industrial real estate has largely spread to other regions, Ho Chi Minh City and Hanoi no longer play a major role in attracting FDI into industrial real estate. Cities meet the demand for non-industrial land development, while industrial real estate development is gradually spreading to neighboring areas, avoiding the development of expensive, cramped industrial real estate projects in the core urban areas, looking for large, cheap land next to the leading cities.

Leading countries in FDI in real estate in Vietnam.

The largest investment countries are Singapore, British Virgin Islands, South Korea and Japan.

Main features of FDI inflows into real estate in Vietnam.

The type of FDI in real estates in Vietnam also has some specific characteristics, in addition to the general features of the total amount of FDI registered in Vietnam.

Firstly, FDI in real estates is closely linked with the amount of FDI registered in the processing and manufacturing industry.

Another feature of FDI in real estate in Vietnam is reflected in the scale of the implementing enterprise and the accompanying market penetration strategy. The majority of enterprises implementing FDI in real estate in Vietnam are large-scale enterprises with increasingly diverse forms.

Assessment of advantages and disadvantages in attracting FDI into the real estate sector.

The attractiveness of real estate investment in Vietnam is better than other countries in the region because it is more profitable than the markets of Thailand, Hong Kong and Singapore because housing prices in Vietnam are lower.

The rapid urbanization and growing middle class in Vietnam are very favorable conditions for the development of the real estate market.

However, the legal system on the real estate market is not synchronized, clear and complicated, and it is not timely revised. Administrative procedures related to investment, construction, bidding, especially land are extremely complicated, leading to prolonged implementation of investment projects. The planning work still has many shortcomings, lack of synchronization, especially in new urban areas. And the real estate credit and corporate bond issuance are being strictly controlled, which are the reasons why it is difficult to attract foreign direct investment capital.

Chapter 3: Foreign Direct Investment Strategy in Vietnam Real Estates



3.1. Foreign Direct Investment Strategy in Vietnam Economy.

The FDI strategy according to the method of accession and the choice of investment form.

At the national level.

- Investment selection according to factors related to the host country.
- The investment selection according to factors related to the country of investment.

At the industry level.

- Market entry strategies focus on market size conditions, industry growth potential, demand fluctuations, advertising or conduct research of the industry and the level of competition.

At the investment/business level.

- Investors pay attention to the specificity of assets that investors want to transfer in investment; i.e. technology and management skills and incentives investors want to invest. These factors include the field of investment, business relationships, and the size of the investment project.

Enterprise-level review.

Select the method of market entry according to the specific characteristics of the investment company such as:

i) Based on experience; ii) Competence; iii) Property characteristics; iv) Network; v) Ownership structure; vi) CEO characteristics.

FDI enterprises with large scale and large capital often choose joint venture as a safe method to enter the market.

If the project duration is long, the possibility of choosing 100% foreign capital is higher than that of a joint venture.

For projects established for export, enterprises will choose the form of enterprises with 100% foreign investment.

For the time of market entry, in the period 2011-2017, investors set up 100% foreign-owned enterprises higher than the joint venture form.

3.2. Foreign Direct Investment Strategy in Vietnam Real Estates.

When foreign investors invest in the real estate sector in Vietnam, they have certain favourable factors.

Besides the advantages mentioned above, the foreign investors also face some difficulties when entering real estate in Vietnam.

Typical investment strategy.

To penetrate the real estate market, the foreign investors established subsidiaries in Vietnam, then entered into joint ventures with domestic real estate enterprises.

For land funds with a useful life of 50 years, the foreign investors focus on resorts, hotels, accommodation, entertainment areas, and industrial park infrastructure.

According to another strategy, in order to increase operational efficiency, avoid administrative procedures, and quickly access clean land funds, foreign investors have bought shares of domestic real estate enterprises, through mergers and acquisitions (M&A - Merges and Acquisitions).

At the initial stage when entering Vietnam's real estate market, the foreign investors focused on big cities. According to recent times, foreign investors have not only focused on large markets, but also have moved to localities with great potential for tourism and industrial park development such as Bac Ninh, Quang Ninh and Quang Ninh. Ninh, Binh Duong, Da Nang, Khanh Hoa and Tien Giang.

In addition, foreign investors also changed investment portfolios and segments based on the openness of Vietnamese laws and regulations to foreign investment in real estate.

Specifically, in the period 2006 - 2013, the FDI capital focused on developing real estate projects in tourism, hotels, commercial centres, offices for lease, infrastructure of industrial parks, construction of golf courses, and entertainment centers.

In the period from 2014 to 2018, investors focused on complex urban areas, high-class apartments, and industrial park infrastructure.

In the period from 2019 to now, the foreign investment flows have poured into the industrial real estate market due to the shift of the global investment wave, along with investment laws and conditions.

Investment attraction results.

The results of foreign investors' strategies to penetrate the Vietnamese market have been clearly shown through the investment value and the proportion of investment capital in the real estate sector compared to the total FDI capital.

The role of FDI in real estate for the overall economy is also reflected in the value of the correlation coefficient between FDI in real estate and economic growth over time.

With data collected from the General Statistics Office of Vietnam (2023) and the Ministry of Planning and Investment (2023), the period 2010 -2022 of FDI inflows, and

GDP growth rate. The article calculates the correlation coefficient (r). The year-to-year correlation coefficient is: 0.2348 and the quarterly correlation coefficient is: 0.0828.

The results show that, the correlation coefficient (r) by year is positive: $0.2348 > 0$. Therefore, foreign investment in real estate fluctuates in the same direction as economic growth: when capital investment in real estate increases, the growth rate also improves. Moreover, the quarterly correlation coefficient (r) also reached a positive value: $0.0828 > 0$. This result further confirms that foreign investment in real estate has a positive supportive relationship to economic growth in Vietnam.

Furthermore, the analysis results also show that the correlation coefficient between investment capital in real estate and the quarterly economic growth rate is lower than the annual correlation coefficient: $0.0882 < 0.2348$. With a longer time jump, i.e. year-on-year, the quarterly variability of each variable is also lower than the annual variation.

In summary, the comparison results of the correlation coefficient indicate that, when considering a longer jump, there is a positive relationship between foreign investment in the real estate sector and the growth rate of the real estate sector. economy will become tighter.

3.3. Case Study: Capitaland Strategy in Real Estates in Vietnam.

The article cites Capitaland Real Estate Group. CapitaLand is a multinational corporation headquartered in Singapore. In Vietnam, CapitaLand has been present since 1994 and is known for its diverse real estate projects, from apartments, townhouses, to urban and commercial areas.

CapitaLand Group's market penetration process demonstrates the strategies that a typical foreign investor typically uses in the Vietnamese market. First, the crowdfunding strategy is implemented in the early stages of the entry process. In the first time, this group cooperated with Hanoi Construction Corporation in 1994 and then, with Bao Viet Group in 1996, following projects stretching from north to south to familiarize themselves with the market. Then, with accumulated experience, 4 years later, ie in 1998, CapitaLand Group opened a subsidiary in Vietnam. With this company, CapitaLand has controlled the entire management system of real estate projects conducted in Vietnam. Also up to now, the process of penetration by acquisition and merger (M&A) has also been applied by CapitaLand group to penetrate a number of projects. The advantage of this method is that it can take advantage of the project's infrastructure, management and branding to save the parent company's resources. From there, the project development process will also be accelerated.

Conclusion

The FDI in real estate is an important component to promote the urbanization process, contributing to creating the premise for other industries. The benefits and impacts of both FDI and FDI in real estate have been demonstrated in many studies. The Thesis suggests some ideas to attract this capital flow in Vietnam as following.

(i) Continue to consolidate and maintain political and economic stability, because as pointed out, political stability and the domestic market are the leading factors attracting foreign capital flows into each country.

(ii) Timely adjustment of foreign investment policies to suit and keep up with fluctuations of the global economy. Create a favorable and competitive business investment environment. Information needs to be transparent and timely to create opportunities for investors to make early investment decisions.

(iii) Develop connectivity infrastructure, urban infrastructure, industrial infrastructure well. This creates synchronous development, convenient traffic connections, and additional good land funds for real estate investment.

(iv) Domestic enterprises must also strive to improve their capacity in all aspects, from technology to the capacity and qualifications of the workforce and management. At that time, the access and search of FDI enterprises will be higher, and domestic enterprises will better meet the requirements of investment cooperation.

Future Research Avenue

The results in Thesis can be extended by various directions. First, the foreign direct investment in real estates can exhibit special characteristics in each different market segments, such as the real estates for health, real estates for tourism. The research on each niche market can provide more insightful ideas about the implementation of foreign direct investment in the Vietnam economy.

Second, there exists both the benefit and riskiness attached to the strategies in the foreign direct investment in the real estates. On accessing the riskiness of the strategies by foreign firms in the real estates, the extended research can provide some suggestions for these firms to contain the riskiness associated with new investment or some public policy implications for the Vietnam government to manage effectively the real estates market.