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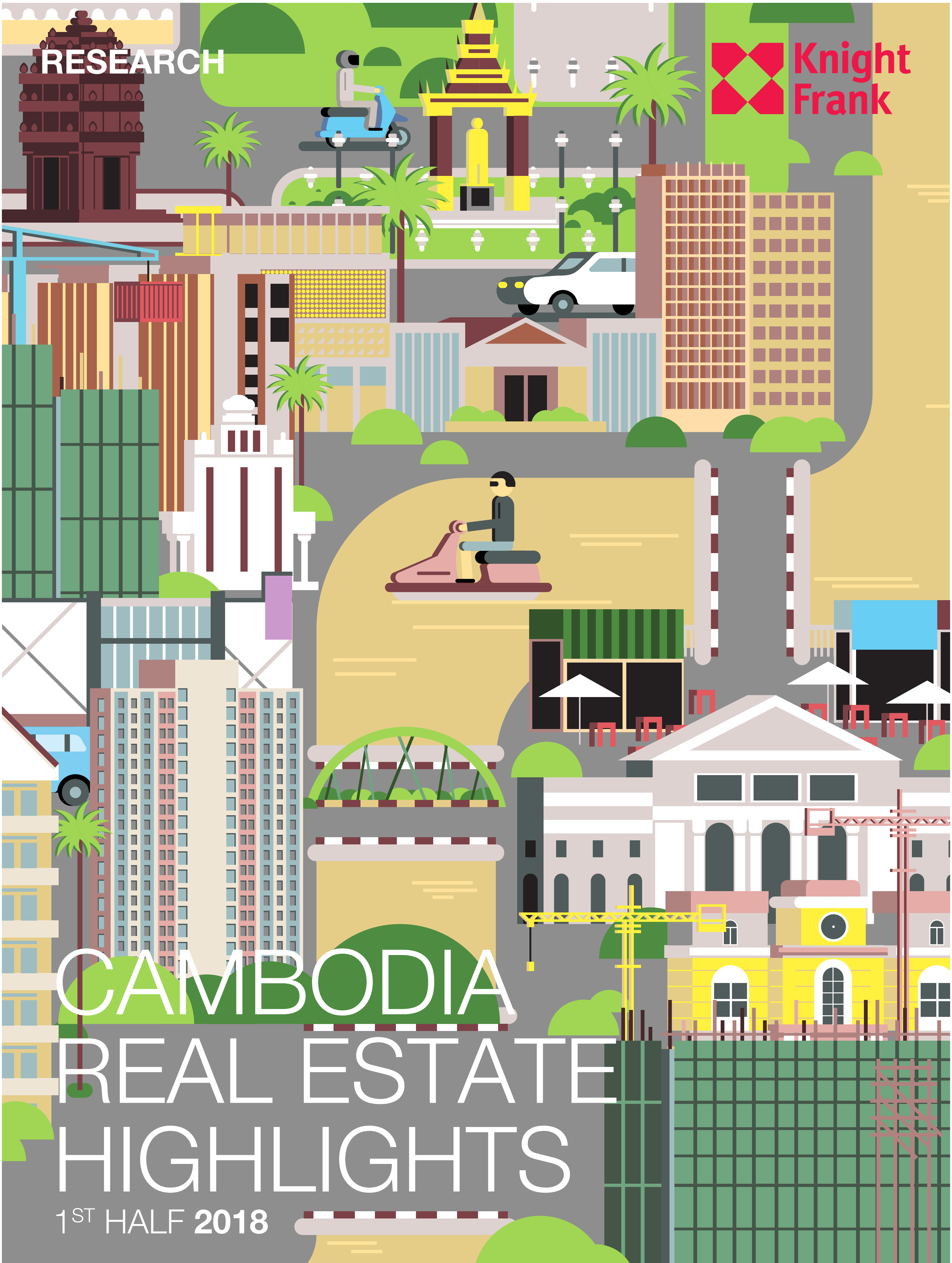

# CAMBODIA REAL ESTATE HIGHLIGHTS

1ST HALF **2018**

ECONOMIC SNAPSHOT | PHNOM PENH | SIEM REAP | SIHANOUKVILLE

# ECONOMIC SNAPSHOT

## In contrast to the previous election year in 2013, when market activity slowed considerably, the real estate sector continued to attract sizeable investment during H1 2018

The main focal point for 2018 is certainly the General Election, to be held in July. However, compared with the previous election year in 2013, the run up to this year's election has been somewhat more muted and, whilst FDI has moderated compared with the first half of 2017, market activity remained buoyant.

According to the Ministry of Land Management, Urban Planning and Construction, a total of US$2.15 billion was invested in Cambodia's construction sector during the first six months of 2018, with construction licenses granted for 1,643 projects.

The key source countries for investment into the Kingdom were China, South Korea and Japan, however, we are starting to see growing interest from European and American companies despite the risk of further trade sanctions being placed on Cambodia by the US and EU.

As the cost of labour in the region is on the rise, and with improving infrastructure and connectivity in Cambodia, in addition to its strategic location, the Kingdom is becoming an increasingly attractive alternative for international manufacturing and logistics companies to set up operation.

Furthermore, with the recent rebound in the price of oil and Kris Energy reaching a 'final investment decision' to proceed with the first phase of development for the Apsara oil field in the Gulf of Thailand, oil extraction is expected to commence in 2019 which will have knock on effects across a number of real estate sectors and provide further diversification to Cambodia's economy over the medium and long-term


LY HAKIM
**Analyst**
**Consultancy & Research**


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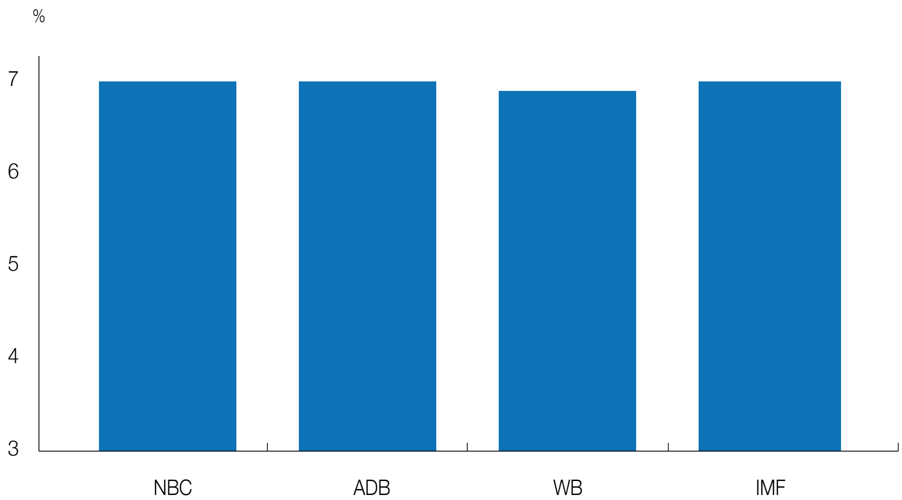
In line with previous GDP growth forecasts for Cambodia, the World Bank and the Asian Development Bank maintained their projections for 2018, ranging between 6.9% to 7.0% (figure 1). This will be underpinned by export diversification, the continued expansion of the construction sector, increasing consumer spending and the growing number of tourist arrivals to the Kingdom.

FIGURE 1
**CAMBODIA GDP GROWTH FORECASTS 2018**




**Source:** National Bank of Cambodia, Asian Development Bank, World Bank, International Monetary Fund

# KEY FINDINGS

**The recent completions of Oval Office Tower, Vanguard, Vanda Tower and The Link Office contributed an aggregate of 30,185 sq m to total office supply in Phnom Penh.**

**By 2020, Phnom Penh will have a cumulative office supply of approximately 552,391 sq m, an increase in the existing supply of 46%.**

**With rising demand and greater flexibility of landlords, the average occupancy rate of prime office space increased to 73%.**

**A slow down in sales of high-end condominiums in Phnom Penh is encouraging developers to construct more prime grade office space.**


Oval Office

# PHNOM PENH OFFICE SECTOR

The looming Cambodia election is the current trending topic but the Phnom Penh office sector remains buoyant. Supply and demand are noted to be moving in tandem showing a continuous upward trend in Phnom Penh during the first half of 2018.

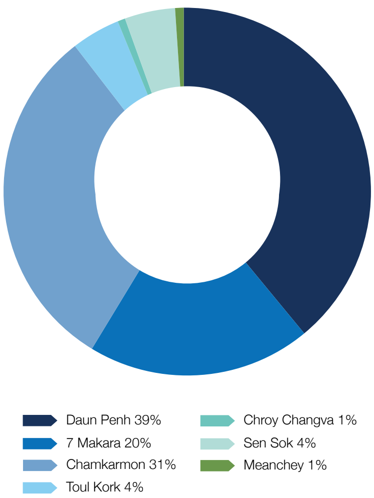
## Supply and Demand

### The influx of Foreign Direct Investment (FDI) and MNCs looking to expand operation in Cambodia has seen the need for additional Grade A and B office buildings in Phnom Penh.

The existing office stock in Phnom Penh was recorded at 377,189 sq m of net lettable area (NLA) as at H1 2018 as compared with 330,085 sq m during the same period in 2017, equating to an increment of 14% Y-o-Y.

The adjusted NLA has taken into consideration the removal of 9,075 sq m stemming from the demolition of Hong Kong Centre and the removal of Alpha Tower, which has ceased operation as an office building.

FIGURE 2
**EXISTING SUPPLY BY DISTRICT**




**Source:** Knight Frank Cambodia

An additional 175,202 sq m of office space is due for completion between H2 2018 and 2020; an increase in the existing stock of 46%, bringing the total NLA up to 552,391 sq m if completed on schedule.

Four newly proposed projects planned for completion, WTC Phnom Penh (WTCPP), Sino Plaza, Olympia City and Chief Tower, will contribute a further 165,683 sq m of office space to the supply post 2020.

During H1 2018, four office buildings, namely; The Vanguard, Vanda Tower, The Link Office and Oval Office Tower, added 30,185 sq m to the existing stock.

The Vanguard, developed, wholly owned and occupied by Shukaku Inc, is located within the award winning Phnom Penh City Centre mixed use development, while Oval Office Tower, The Link Office and Vanda Tower are small-scale projects constructed by local developers.

By location, the majority of office buildings are still concentrated in Daun Penh District representing 39% of existing supply. This is followed by Chamkarmon (31%), 7 Makara (20%), Toul Kork (4%), Sen Sok (4%), Mean Chey (1%) and Chroy Chongvar (1%).

Despite the demolition of Hong Kong Centre and the closure of Alpha tower, the majority of existing office supply is still dominated by Grade C space representing 51% of the overall supply. This is followed by Grade B buildings at 35% and Grade A buildings at 14%.

### Developers to provide additional Grade A office space.

Grade A space forms the majority (72%) of future office supply, of which 31% is stratified office space. The remaining 28% of total supply is Grade B office space.

61,440 sq m (18%) is scheduled to come online in H2 2018, with a further 75,986 sq m (22%) to completed by 2019.

37,776 sq m (11%) and 165,683 sq m (49%) will be completed in 2020 and post 2020, respectively.

### A gradual increment recorded in existing office space occupancy in H1 2018.

The overall occupancy rate was recorded at 88.5% during H1 2018, a Y-o-Y increase of one percentage point, despite an additional 30,185 sq m of incoming supply to the existing stock.

The occupancy rates for Grade B and C offices were recorded at 96.0% and 87.4% as at H1 2018, a slight increase from 94.8% and 86.6%, respectively, over the same period in 2017.

However, the occupancy rate for Grade A office rose significantly from 59.8% during H1 2017 to 73.4% as at H1 2018, an increase of 13.6 percentage points YoY.

Currently, there are only two Grade A offices in Phnom Penh, Exchange Square and Vattanac Capital. Both located in the CBD area of Phnom Penh, Exchange Square commands a higher occupancy rate largely due to the strong regional reputation of the developer, Hongkong Land.

## Prices and Rental

### Prices and rentals of Grade A offices are likely to remain flat due to increasing supply.

Despite the surge in occupancy rates recorded during the first half of 2018, rentals for office space across all grades and locations are expected to remain flat over the short to medium-term, as supply will almost double by 2020.

A slight increment in the overall monthly asking rent was recorded for Grade A offices, ranging between US$28 and US$40 per sq m per month (excluding service charges and tax).

Grade B and C asking rentals remained unchanged ranging between US$18 to US$25 per sq m per month and US$8 to US$15 per sq m, respectively.

Prices of stratified office units remained flat, ranging from US$2,000 for Grade B units to as high as US$4,500 per sq m for Grade A units.

## Office Sector Outlook

### Grade A and B offices remain the preferred choice as more MNC's are looking to expand operation in Cambodia.

The increasing FDI and an influx of MNC's looking to expand operation in Cambodia has led to an increase in demand for Grade A and B office buildings in Phnom Penh.

In view of the above, coupled with the high occupancy rate (average of 88.5% as at H1 2018), developers are starting to tap into the commercial market, and more specifically the office sector.

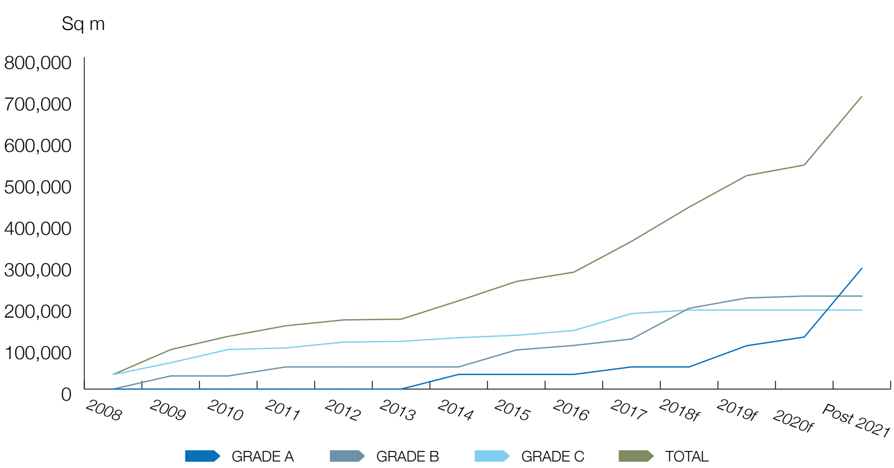
In line with the global trend, the serviced office industry has also started to swell. Regus, the global serviced office operator, recently opened their second co-working space in Casa Meridian and are now eying their third location, in addition to several newcomers to the market including The Factory Phnom Penh located to the south of the city centre.

Additional facilities and parking spaces are vital in a prospective tenant's consideration for office space. Hence, the outlook for existing Grade C office buildings is not as optimistic, and we expect to see more landlords plan for refurbishment to keep pace with the market or redevelop into alternative uses.

Occupancy rates are expected to remain stable at 80% and 90% for Grade A and Grade B buildings respectively over the short-term whilst rentals are likely to remain flat despite the increasing demand, due to the large incoming supply.

Landlords are also likely to provide additional incentives such as rent free periods, stepped rents and free totems or signages in order to maintain or increase occupancy.

FIGURE 3
**CUMULATIVE PHNOM PENH OFFICE SUPPLY**




**Source:** Knight Frank Research

# KEY FINDINGS

**Cambodia's second AEON Mall was officially inaugurated in H1 2018, adding further supply to the Kingdom's retail sector.**

**An estimated 392,476 sq m of retail NLA is due to come online post 2020, bringing the total retail supply to 643,718 sq m, an increase of 156%.**

**Following the completion of AEON Mall Sen Sok City, 70,500 sq m was added to the existing supply, increasing to 251,305 sq m as at H1 2018.**

**The average occupancy rate reached new heights as at H1 2018 at 92.1%, a YoY increase of 4.7 percentage points over the same period.**

**CapitaLand, Asia's largest mall operator, has inked an agreement to manage an on-going shopping centre slated for completion post 2020, which forms part of The Peak.**

**There has been a noticeable shift toward the development of Community Malls as local developers seek to enter the market.**

AEON 2

# PHNOM PENH RETAIL SECTOR

AEON Mall Sek Sok City, Cambodia's largest shopping centre, officially opened its doors in June 2018. However, the retail outlook will be of cautious optimism due to significant incoming supply albeit supported by a growing population, rising consumer spending and Cambodia's emerging middle class.

## Supply and Demand

### The Phnom Penh retail sector is set to expand by an estimated 296,213 sq m within the next 2 years.

As the retail industry in Phnom Penh continues to thrive, AEON Mall Sen Sok City opened its doors in Q2 2018. As Cambodia's second stand alone international mall, AEON Mall Sen Sok City is currently the largest shopping centre in Phnom Penh boasting a NLA of 70,500 sq m, equipped with Cambodia's first IMAX cinema, an indoor theme park and a water park,

AEON Mall Sen Sok City is a standout amongst its competitors in Phnom Penh, achieving an occupancy rate of approximately 95% upon opening, and is following the global trend of malls becoming an entertainment and leisure hub rather than purely a shopping destination.

AEON Mall Sen Sok City added 70,500 sq m to the existing stock of retail space bringing the total cumulative supply to 251,305 sq m as at H1 2018. The additional retail space equated to a YoY growth of 39% in the existing supply.

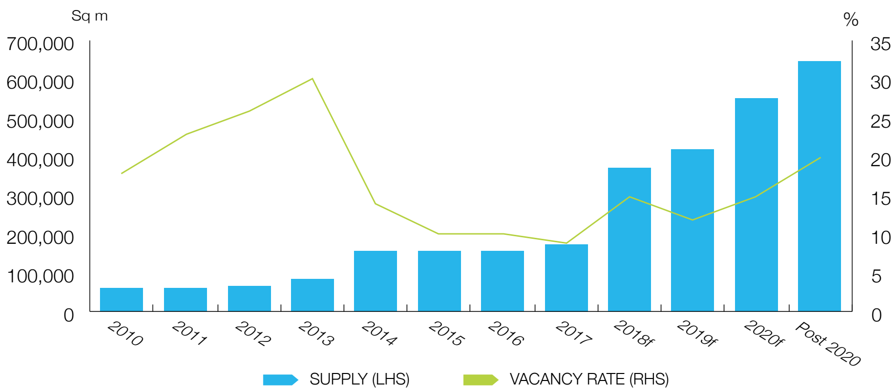
In 2018, five on-going projects are scheduled for completion, contributing a further 115,013 sq m to the retail stock; these include Downtown 93 (6,994 sq m), Parkson Phnom Penh City Centre (70,200 sq m), The Lane (9,000 sq m) and The Park Community Mall (10,000 sq m).

Downtown 93, Parkson Phnom Penh City Centre and The Lane are all located within the city centre whilst the others are located in suburban areas. Should all the projects complete as scheduled, 2018 will see the largest incoming retail space supply on record; a total increase in supply of 113% (including AEON Mall Sen Sok City).

An estimated 392,476 sq m of retail NLA will come online post 2020, accumulating a total retail space of 643,781 sq m post 2020; an increase of  156%. With a significant incoming supply in the pipeline, rental rates over the medium to long term are likely to face downwards pressure.

FIGURE 4

**PHNOM PENH SUPPLY AND DEMAND OF RETAIL SPACE**




**Source:** Knight Frank Research

The overall occupancy rate reached new heights during H1 2018 at 92.1%, a YoY increase of 4.7 percentage points over the same period. Prime shopping malls recorded an occupancy close to 97% whilst Secondary retail malls recorded an occupancy of 85%. Vattanac retail podium, one of the prime shopping malls, is now 96% occupied with the new arrivals of upscale international brands such as L'Occitanne, Stefano Ricci, Santomi and Jimmy Choo.

With the significant supply of retail space coming online post 2020, the overall vacancy is forecast to increase to 20%. However, with Cambodia's emerging middle class driving consumption growth, more international Asian brands are entering the market, leading to robust demand for international standard shopping centres and higher occupancy rates in prime shopping malls.

CapitaLand, one of Asia's largest mall operators, recently inked an agreement to manage a luxury retail mall in The Peak. Currently an on-going project, it is a joint venture project undertaken by Singapore-based Oxley Group and local developer, Worldbridge Land. Upon completion, it will comprise a five-storey retail podium (24,154 sq m NLA) with high-rise condominiums, office space and the Shangri-La Hotel atop of the retail podium

Notwithstanding the data indicators, which bode well in the near future for the retail market, it is anticipated to become increasingly challenging for mall operators as the retail space per capita in Phnom Penh is set to almost triple by 2020.

Community malls in Cambodia are currently trending with food & beverage and entertainment retailers being the major driver. The most recent inauguration in 2018 is Eden Garden which is fully occupied.

## Prices and Rental

Average rents for retail units (below 100 sq m) in prime shopping centres remained flat between H1 2017 and H1 2018. However, a slight increment was noted with the completion of Hongkong Land's Exchange Square.

Secondary mall asking rentals remained unchanged at an average rent of US$18 per sq m per month as at H1 2018.

During H2 2018, there will be an additional 115,013 sq m of NLA coming online and this will likely impact rents as mall operators seek to retain both existing tenants and anchor tenants as well as attracting new tenants.

## Retail Sector Outlook

Much of 2018's anticipation was focused on the opening of AEON Mall Sen Sok City. Equipped with the country's first IMAX cinema, this shopping mall has brought Cambodia's cinematic experience to a new level.

H1 2018 also saw the opening of Circle K, a new US-based convenience store. Originating from the US and now Canadian-owned, Circle K is a 24-hour convenience store. With a planned expansion of an additional 300 stores nationwide, it will be interesting to see how Circle K will differentiate itself to compete with current offerings such as Kiwi Mart, Smile, AEON Max Value and other local stores.

We anticipate the food & beverage segment to continue to witness an upward trend due to Cambodia's emerging middle glass and increasing popularity amongst younger generation consumers.

The buoyant trend for community malls are favoured by the younger generation whom are more "brand conscious" as they feature mainly food & beverage, fashion and entertainment retailers. Community malls generally command a lower rental due to them being located in a more decentralised area, which is beneficial for retailers. The latest in the pipeline slated for completion this year is The Park, located in Chbar Ampov, south-east of Phnom Penh city centre.

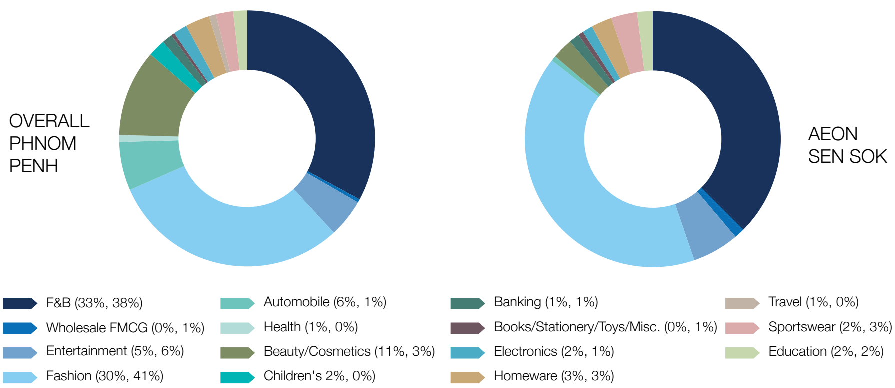
Also in the pipeline for completion in 2018 is the Parkson City Centre and The Bridge retail podium. Parkson is a major mall operator originating from Malaysia with extensive mall networks spanning across the South East Asia region and will be the first international competition for AEON.

As Cambodia's rapid growth continues unabated, along with rising disposable incomes, we anticipate to see more European and American brands gradually entering the market increasing the retail offer.

However, due to a potential oversupply situation by 2020, the retail sector outlook is one of cautious optimism. The future incoming supply will likely place downwards pressure on rental and occupancy rates. Mall operators in Cambodia will be required to develop more creative marketing strategies and promotional events to increase traffic to the retail malls.

Notwithstanding the above, with limited good quality and well-managed shopping centres in the capital city, coupled with improvements in the standard of living and public infrastructure, as well as growing purchasing power amongst its population, there is potential for the development of more international standard shopping centres in Phnom Penh, however, new malls will need to differentiate from the existing offering in order to ensure sustainable foot traffic to attract retailers.

FIGURE 5
**AEON SEN SOK VS OVERALL PHNOM PENH TENANT MIX**




*Note: percentage based on number of units and not net floor area.*

**Source:** Knight Frank Research

# KEY FINDINGS

**The existing supply of hotels with 50 rooms and above was recorded at 10,347 rooms across 80 hotels as at H1 2018.**

**The most notable completion during H1 2018 was the opening of the much anticipated Luxury Rosewood Phnom Penh, adding 175 keys to the existing supply.**

**Average Daily Rates and RevPar for Luxury & Upper Upscale hotels in Cambodia recorded nominal YoY growth of 1.8% and 1.9% respectively between 2016 and 2017.**

**The average occupancy rate during the same period and within the Luxury & Upper Upscale category remained flat at 52% for Cambodia.**


ROSEWOOD HOTEL, VATTANAC CAPITAL

# PHNOM PENH HOTEL SECTOR

Since our last report on Phnom Penh's hotel sector in 2015, the tourism and hospitality landscape has evolved rapidly, in line with Cambodia's strong GDP growth, and will be a key driver of the economy in the years to come.

## Supply

### The much anticipated opening of the Luxury Rosewood Phnom Penh, as well as the Upper Midscale Le Castle River Hotel, added 263 rooms to the existing stock.

The total supply of hotel rooms was recorded at 10,347 as at the end of H1 2018, reflecting an increase of 21% compared with the same period in 2017, largely attributable to the completion of Naga 2, providing and additional 902 keys.

263 keys were completed during H1 2018, all of which were located within the city centre District of Daun Penh. The majority (67%) of the newly completed keys were categorised within the Luxury & Upper Upscale segment, with the remaining keys within the Upscale & Upper Midscale category.

Whilst Midscale & Economy hotels continue to dominate supply (49%), developers have seized the opportunity to fill the gap that once existed in the market for internationally branded hotels within the Upscale & Upper Midscale segment, as well as the Midscale & Economy segment, with several local developers teaming up with international brands including Courtyard Marriott, Novotel, Fairfield Marriott and Ibis Styles.

Between H2 2018 and Post 2020, an additional 2,452 hotel rooms are scheduled for completion, the majority of which (38%) are within the Luxury & Upper Upscale segment, followed by Upscale and Upper Midscale hotels (37%) and Midscale & Economy hotels (25%), providing a clear indication of the evolution of the market, shifting away from the traditional 'backpacker' image of Cambodia to one of an up and coming tourism destination attracting more high-value tourists looking for a wider range of accommodation options.

## Occupancy rates and room rates

### Despite the optimistic outlook for Phnom Penh's hotel sector, room rates have remained relatively flat since 2011 whilst the average occupancy rate has faired a little better

Tourist arrivals to Cambodia recorded an average annual growth rate of 10.8% between 2007 and 2017, and a YoY growth of 11.7% to 5.6 million in 2017 (figure 7). However, whilst Cambodia has continued to record strong growth in tourist arrivals and expenditure, and despite a relatively modest increase in the supply of hotel rooms between 2016 and 2017, the average occupancy rate remained flat YoY at 52%.

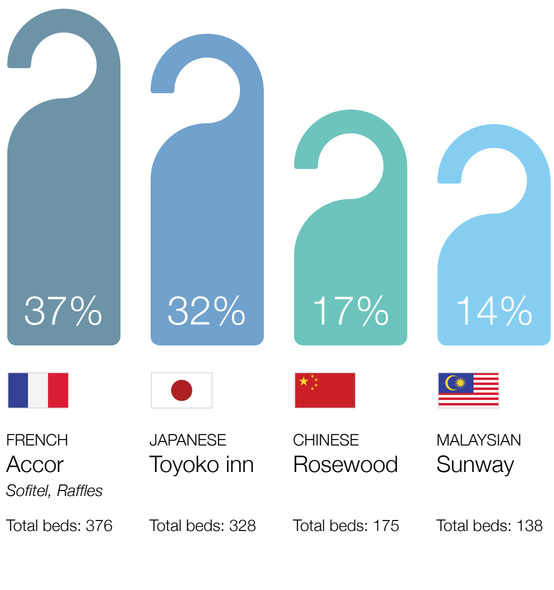
Analysing the performance of the sector over a longer timeframe goes some way to understanding why the average daily rates and RevPar have remained relatively flat since 2011 (figure 8), with the supply of hotel rooms increasing by more than 145%, equating to a supply of just over 1,000 rooms per annum.

FIGURE 6

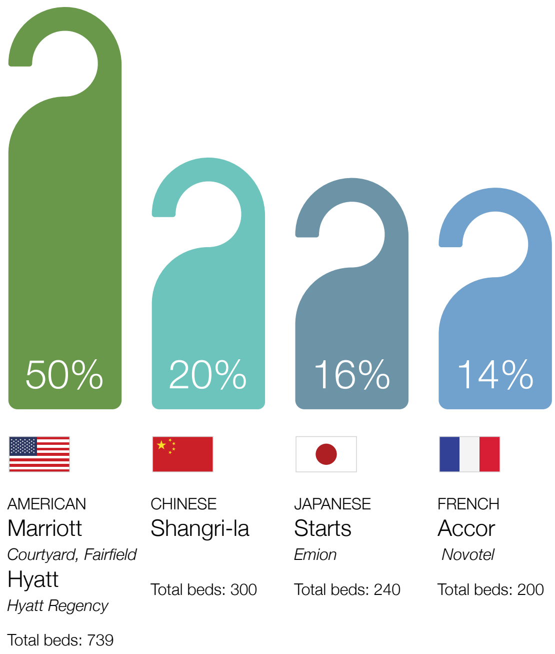
## EXISTING & FUTURE INTERNATIONAL OPERATORS BY ORIGIN AND MARKET SEGMENTATION

### EXISTING & FUTURE INTERNATIONAL OPERATORS BY ORIGIN

EXISTING (%):

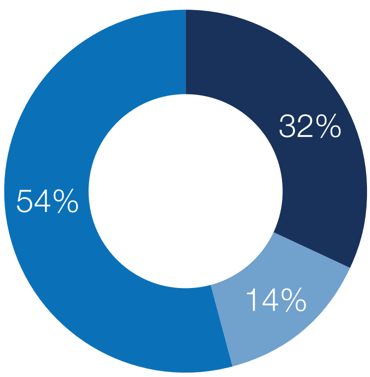



FUTURE OPERATORS (%):

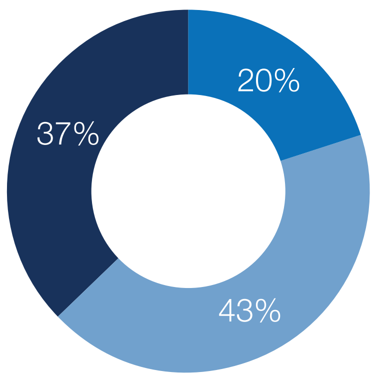



### EXISTING & FUTURE MARKET SEGMENTATION

EXISTING (%):




FUTURE OPERATORS (%):




Luxury & Upper Upscale

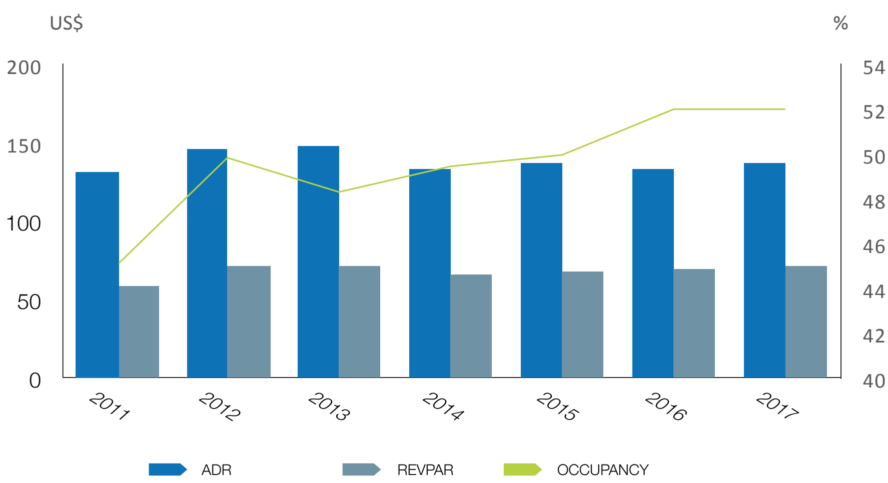
Upscale & Upper Midscale

Midscale & Economy

Furthermore, within the Luxury & Upper Upscale segment, foreign tourists make up more than 95% of hotel guests, with limited historical demand from domestic tourists for the more luxury accommodation options in the capital, adding further pressure to occupancy and room rates.

FIGURE 8

**ANNUAL ADR, REVPAR & OCCUPANCY RATE (LUXURY + UPPER UPSCALE)**




**Source:** STR / Knight Frank Research

# Hotel sector outlook

## The recent acquisition of the two Raffles hotels in Phnom Penh and Siem Reap, the increasing number of international operators entering the market and the improving connectivity to Cambodia are all pointing in one direction

The pace of development in Cambodia since its recovery from the global financial crisis has been mind-blowing; having once been a 'sleepy backwater' attracting predominantly low value backpacker and thrill-seeking tourists, the shackles have been well and truly broken.

The misconception that people once had toward Cambodia is slowly changing as Cambodia's strong economic growth, booming construction industry and idyllic leisure destinations have placed Cambodia on the world map.

Whilst Angkor Wat in Siem Reap has long been consistently ranked as one of the world's top tourist destinations, the improving regional and global connectivity, as well as domestic infrastructure, is opening up the rest of Cambodia for tourists to enjoy which has led to an increasing need for more suitable accommodation options for a more diverse market segmentation.

The recent acquisition of the Raffles hotels by Lodgis Hospitality Holdings, a joint venture between VinaCapital and Warburg Pincus, as well as the slew of internationally operated hotels either under construction or in the development pipeline, gives a clear indication that the hospitality sector in Cambodia has tremendous growth potential over the short, medium and long-term.

None more so than Phnom Penh, the capital city and economic hub of Cambodia. Whilst historically the performance of the sector has deterred international operators from entering into the market, the tremendous growth prospects in both domestic and international tourism, across the leisure, business and MICE segments, has led to intense competition among operators vying for developers' attention and eager to sign hotel management agreements across a range of brands and segments.

With Six Senses, Alila, Courtyard Marriott Phnom Penh and Shinta Mani Wild, owned and designed by world renowned resort designer, Bill Bensley, all set to open in H2 2018, the future looks bright for Cambodia's tourism industry.

FIGURE 7

**INTERNATIONAL TOURIST ARRIVALS (2007 - 2017)**


**Source:** Ministry of Tourism

## KEY FINDINGS

**The cumulative supply of serviced apartments in Phnom Penh was recorded at 5,050 units as at H1 2018.**

**Approximately 54% of the existing supply is concentrated in Chamkarmon District, followed by Daun Penh (13%) and Toul Kork (12%).**

**An additional 990 serviced apartments are due to complete by the end of 2018, of which 82% are located in Chamkarmon, 15% in Daun Penh and 3% in Toul Kork.**

**Chamkarmon remains the top location and most sought after, particularly amongst foreigners, due to its close proximity to eateries, entertainment outlets, retail and tourist attractions.**

**In view of the incoming supply and a glut in the condominium sector, we anticipate downwards pressure on asking rentals as well as occupancy rates.**

# PHNOM PENH SERVICED APARTMENT SECTOR

An abundant supply of incoming condominiums is likely to weigh down on the historically well-performed serviced apartment sector which is being impacted by increasing competition.

## Supply

### Notable launches in H1 2018 in the serviced apartment sector included The View Residence, a high-end luxury hotel-style level of serviced residence in BKK 1, Phnom Penh

The cumulative supply of serviced apartments in Phnom Penh was recorded at 5,050 units as at H1 2018; an increase of approximately 11% compared with the same period in 2017.

Newcomer, Queen Mansion, providing an additional 24 mid-tier units, completed during the first half of 2018. Located in the most desirable residential neighbourhood in Chamkarmon District, Toul Tom Pong area, it comprises only 1-bedroom units.

During H2 2018, an additional 990 serviced apartments are expected to complete and be ready to move in to, reflecting an increase of 20%.

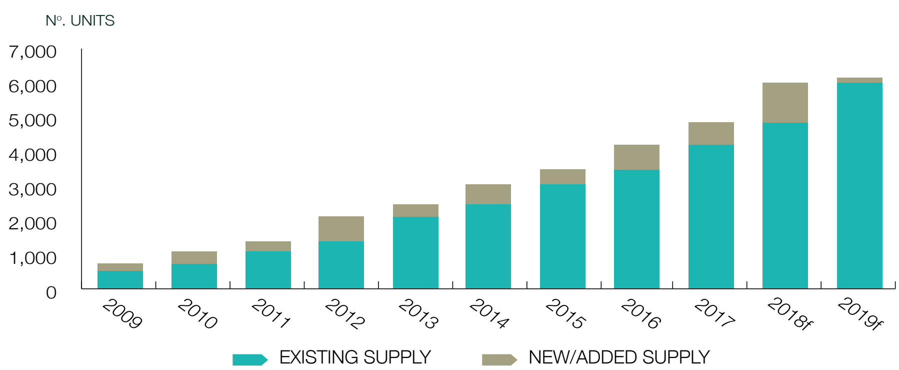
The View Residence is slated for completion during H2 2018. The majority of units within The View Residence will be operated as serviced apartments, managed by the developer, Grand Richfortune Company Ltd. Located in BKK 1, The View Residence will be a high-end luxury hotel-style serviced residence.

As at H1 2018, Chamkarmon continued to dominate more than half of the market share with 54% of serviced apartments, followed by Daun Penh at 13% and Toul Kork (12%). The remaining units are distributed around Sen Sok, 7 Makara, Chroy Chongvar and Meanchey.

Of the total 5,050 units, 2,940 units (58%) are mid-tier, 938 units (19%) are high-end whilst 1,172 units (23%) are mass market. In the foreseeable future, we expect growth in the supply trend of serviced apartments to moderate due to the significant incoming supply of condominiums.

FIGURE 9

**CUMULATIVE SUPPLY OF SERVICED APARTMENTS (2009 - 2019F)**




**Source:** Knight Frank Research

## Rental

### As at H1 2018, the average rental rate for high-end units was recorded at US$22 per sq m, a 12% drop from US$25 per sq m in H2 2017.

We started seeing a gradual decrease in rental rates for high-end serviced apartments during 2017 and we expect this trend to continue. With the increasing competition of serviced apartments, and further incoming supply of condominiums, rental rates will continue to face downwards pressure.

The above not withstanding, the average rental rates for mid-tier and mass-market segments remained flat from H1 2017, recorded at US$13 per sq m and US$7 per sq m, respectively.

## Occupancy

### Despite the increase in supply of both condominiums and serviced apartments, the average occupancy rate across all segments for serviced apartment increased to 75% as at H1 2018.

In contrast to the high end segment which recorded an average of 54% occupancy, the mid-tier and mass-market segments recorded average occupancies of 80% and 84%, respectively.

The high-end segment average occupancy rate dropped from 61% recorded in H2 2017, whilst the mid-tier and mass-market increased marginally, despite the increase of supply for these two segments.

The main market for serviced apartments in Phnom Penh continues to be expatriates and foreign workers from neighbouring countries. To cope with declining demand, serviced apartment operators are increasingly flexible in terms of stay duration, offering rentals for short term tenants ranging from monthly to daily stays.

Location wise, 7 Makara has overtaken Chamkarmon at 86% in terms of occupancy rate, due to its centralised location compared with other districts and lower rental rates. Following closely behind is Chamkarmon district at 84% and Daun Penh at 81%.

## Serviced Apartment Sector Outlook

### Occupancy rates have shown an increase despite growing supply. However, the serviced apartment sector may become saturated due to the abundant supply of condominiums coming online in H2 2018.

Despite condominium supply swelling, the average occupancy rate across the serviced apartment sector was not adversely affected during H1 2018. It does, however, come at a cost, where serviced apartment operators need to be more flexible when negotiating tenancy terms and rents.

With increasing competition and supply, rental rates are expected to face further downwards pressure. During H1 2018, the high-end segment rental rates dropped by 12%, whilst the mid-tier and mass-market remained flat. We anticipate to see further downward pressure as serviced apartment operators compete to maintain occupancy rates.

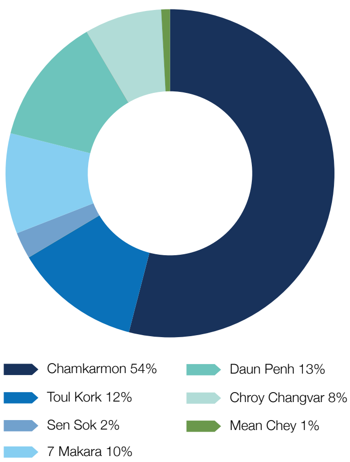
Demand for serviced apartments relies heavily on expatriates and will continue to be sustained by such demographic over the short-term. With growth in the expatriate population expected to be moderate, operators will need to target other market segments

However, This sector is increasing supported by Cambodia's tourism industry, and as tourist arrivals continue to record positive growth, we will see the entry of more international serviced apartment operators.

Landlords and serviced apartment operators of older buildings will need to undertake refurbishment, works and conduct regular maintenance of their properties as competition intensifies with upcoming new condominiums and service apartments.

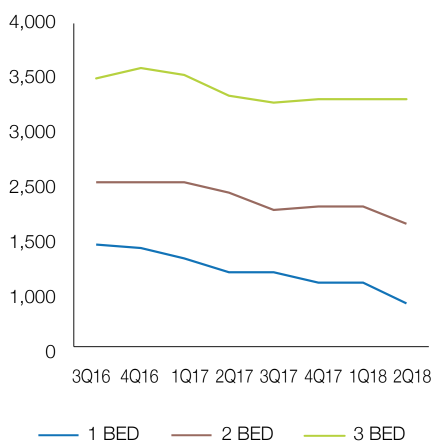
Traditionally, landlords and service apartment operators have been able to command high rental rates based on the lack of supply. However, we are already seeing a shift towards a tenant's market due to incoming condominium supply.

FIGURE 10
**EXISTING SUPPLY BY DISTRICT**




**Source:** Knight Frank Research

FIGURE 11
**QUARTERLY MONTHLY ASKING RENTS FOR HIGH-END UNITS**




**Source:** Knight Frank Research

## KEY FINDINGS

**Existing supply in Phnom Penh currently stands at 44 projects (11,675 units) following the completion of 10 new projects during H1 2018.**

**The sales rate of monitored stock continued to moderate, recorded at 11% as at H1 2018, a 1 percentage point drop from H2 2017 as further supplies accumulate to the existing stock.**

**Due to the sluggish sales rate for high-end units, new launches in H1 2018 were predominantly within the mid-tier segment.**

**For mid-tier projects targeting domestic purchasers, developers are providing additional incentives to home buyers such as discounts, flexibility in down payment terms, longer tenure loans and increasingly competitive interest rates.**

# PHNOM PENH CONDOMINIUM SECTOR

Despite a moderation in sales of high-end condominiums, developers remained optimistic with seven new launches in H1 2018

## Supply and Demand

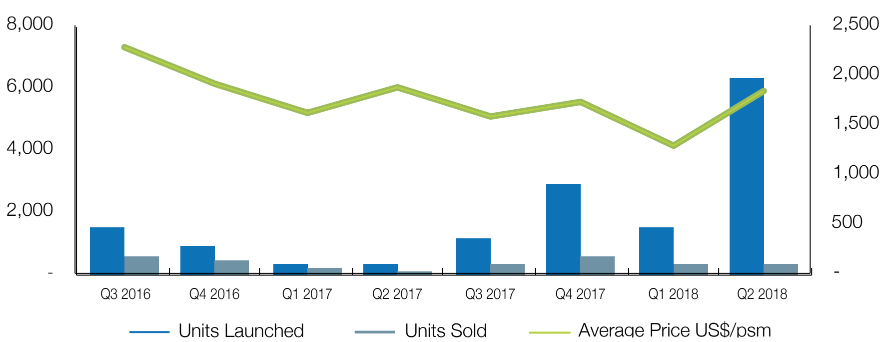
**As at H1 2018, following the completion of 10 new projects, the number of existing projects stood at 44 with an accumulated 11,675 units; an increase of 57% from H2 2017.**

Of the 11,675 units, 4,569 units were mid-tier whilst 7,106 were high-end. H1 2018 saw the completion of 10 new projects, namely Diamond One, The Bhumi Emerald, Bellavita, Residence L BTB, J Tower Condominium, The Bridge, Prince Plaza, Appennines, Residence L Olympic and Infinity 28. Also completed were parts of Olympia City, Block C3 and C4 which contributed 500 and 300 units to the existing stock, respectively.

An additional 33 on-going projects are slated for completion by the end of 2018, providing an additional 11,129 units, almost doubling the existing supply. Of the 11,129 units, 3,340 units are mid-tier whilst 7,789 are high-end units.

FIGURE 12

**SALES OF NEWLY LAUNCHED CONDOMINIUMS BY QUARTER**




**Source:** Knight Frank Research

Despite the high number of on-going projects coming online in 2018, developers remained active with seven new off-plan launches identified during H1 2018 adding 7,823 units to the future supply. They comprised Urban Village (840 units), Residence Bel Air (82 units), Residence L Bueng Tapon (600 units), R&F Properties (5,232 units), East Sen Sok (500 units) Yue Tai Garden (420 units) and L'Attrait BKK (149 units).

Post 2021, assuming all the identified projects are completed, the total number of units will stand at approximately 43,337; resulting in an increase of 274%.

Location wise, as at H1 2018, the existing condominiums were mostly concentrated in Chamkarmon District (49%), a highly sought after location for both residential and commercial properties. This is followed by 7 Makara (16%), Chroy Changvar (15%) and Toul Kork (6%). The rest are distributed around Sen Sok, Daun Penh, Chbar Ampov, Russey Keo and Meanchey.

It is worth noting that Sen Sok will comprise a larger share in the near future, making up 31%, as its location is near the recently inaugurated AEON Mall Sen Sok City which has attracted developers to the area.

In contrast to previous years, future incoming supply is moving towards mid-tier as opposed to high-end units. Assuming all launched projects complete on schedule, in 2019, mid-tier units comprise 3,556 units (81%) and high-end units comprise 822 units (19%). In 2020, mid-tier units comprise 2,406 units (66%) whilst high-end units comprise 1,239 units (34%).

Although the overall sales rate moderated during H1 2018, the number of units sold increased by 9% to 2,020. This is primarily contributed by the sale of mid-tier units.

# Prices and Rental

## Prices across all segments remained largely flat between H2 2017 and H1 2018, whilst the high-end segment recorded a slight decrease from an average of US$3,000 to US$2,944 per sq m during the same period.

Notable launches during H1 2018 included Urban Village, located in the suburban areas south of Phnom Penh city centre, which is a combination of mid-tier condominiums, co-working space, retail and an entertainment hub, with asking prices starting from US$59,500 for one bedroom units.

East Sen Sok, another mid-tier project located in an up and coming suburban area close to AEON Mall Sen Sok City, recorded asking prices of between US$39,620 to US$47,540 for smaller units.

The overall average asking price of mid-tier units as at H1 2018 was recorded at US$1,582 per sq m, a slight decrease from US$1,600 during H2 2017. High-end units also saw a slight decrease  to US$2,944 per sq m, both due to the swelling condominium supply and stunted sales rate.

As the supply has doubled since H2 2017, and with more units to come online by the end of 2018, we anticipate asking rents to face downward pressure. The asking rental currently stands at US$15 to US$25 per sq m in prime locations while outer areas commanded rents of between US$8 to US$12 per sq m.

# Condominium Sector Outlook

## As supply outpaces demand for high-end condominiums, affordable mid-tier condominiums are still sought-after by domestic purchasers due to the emerging middle class and rapid urbanisation rate.

Developers are increasingly required to devise creative marketing strategies to entice domestic buyers. Attractive incentives such as no down payment, special discounts, lucky draw, free electrical items,, competitive interest rates and longer loan tenure are provided to attract first time home buyers.

To cater to the local market, we continue to see developers launching projects in outside city districts, enabling them to target the domestic market by offering more affordable units.

The condominium market in Phnom Penh is still in its infancy, largely due to limited local demand. As with any developed market, demand needs to be driven predominantly by the domestic market to be sustainable over the medium and long-term.

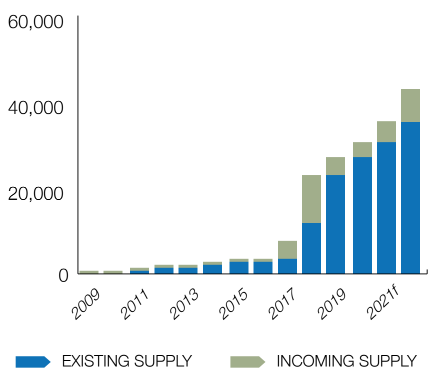
The growth from domestic buyers for affordable mid-tier units has prompted developers to shift new launches  to suburban areas because land prices in Phnom Penh city are increasingly costly and it is no longer viable for developers to provide mid-tier condominiums at affordable pricing within the city centre.

As for high-end condominiums, we expect to see stagnation in terms of pricing as the supply outpaces demand. However, the inflow of foreign investments and increasing Chinese investors has helped underpin property demand, some of whom are investing on en-bloc basis (whole block). Phnom Penh Harbour, a large-scale development undertaken by Yuetai Group, has started pre-sales for their riverside development for sale on an en-bloc basis.

To conclude, despite the concerns of a condominium glut, we do not foresee a significant impact on the overall sector. The rental market, however, will be more competitive due to the significant increase in supply, hence landlords will be required to be more flexible in lease terms and rental pricing.

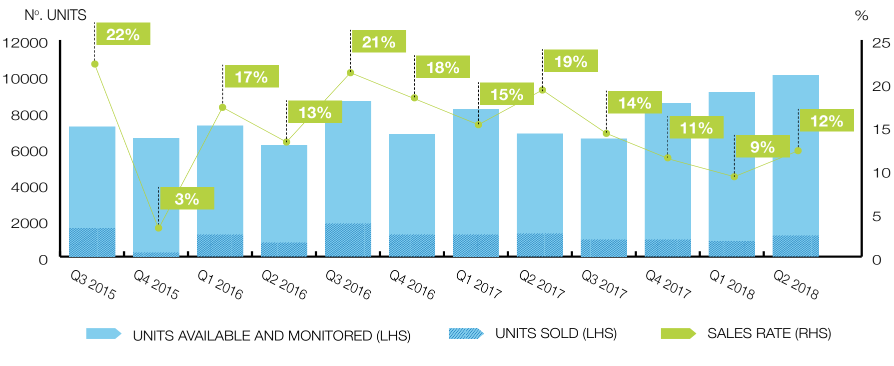
Most foreign buyers of high-end condominiums are cash investors in Cambodia, therefore the short-term oversupply is unlikely to have any significant adverse effects on the wider market as investors are able to hold on to their units until the market shows improvement, or until we see the gap between asking prices and domestic incomes narrow. It will be interesting to see the robustness of the secondary sub-sale market as purchasers of off-plan units now look to sell the properties and realise their profits.

FIGURE 13
**CUMULATIVE SUPPLY (2009 - POST 2021)**




**Source:** Knight Frank Research

FIGURE 14
**QUARTERLY SALES OF MONITORED AND AVAILABLE CONDOMINIUMS (3Q2015-2Q2018)**




**Source:** Knight Frank Research

# SIEM REAP H1 2018 REVIEW

## Overview

Located approximately 231 kilometres northeast of Phnom Penh, Siem Reap is the capital city of Siem Reap Province and is Cambodia's top tourist destination. Covering an area of 10.3 square kilometres the population is estimated to be in the region of 1,000,000, whilst Siem Reap City accounts for approximately 20% of the total population at 200,000.

Often voted as one of the world's top tourist attractions, Siem Reap Province is home to the Angkor Archaeological Park, a UNESCO world heritage site located in Angkor Thom District, attracting millions of international and domestic tourists annually (figure 16) who flock to see the iconic Angkor Wat and the surrounding ruins and remnants of art, culture and architecture with well preserved murals, stone carvings and religious statues creating a depiction of life in the Khmer Empire during the 9th to 15th century.

Just south of Siem Reap City is the Tonle Sap lake, the largest fresh water lake in Southeast Asia, which plays a major role in the province's ecosystem and biodiversity, as well as an abundant supply of fresh water fish meeting more than half of the country's demand.

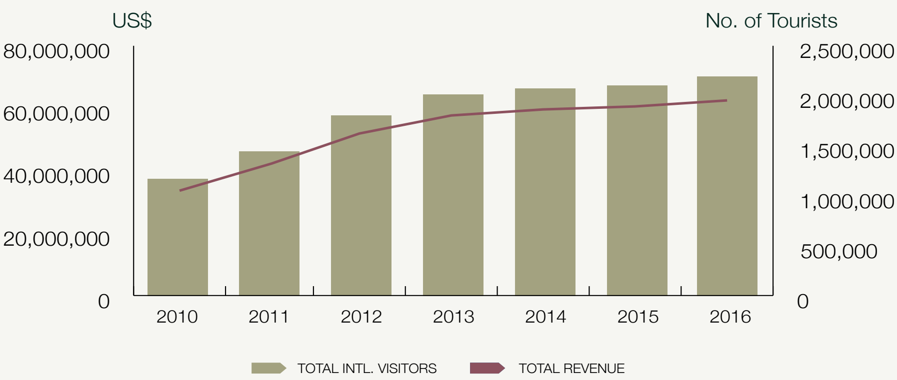
The above notwithstanding, Siem Reap has attracted nominal FDI as compared with Phnom Penh and, more recently, Sihanoukville. This is largely attributable to three factors; firstly, development within the Apsara Zone restricts the height of building to 4 storeys – no buildings should be higher than Angkor Wat. This makes Siem Reap a less attractive investment proposition as developers are restricted in terms of permissible projects. Secondly, Siem Reap's economy is largely driven by the tourism industry and lacks diversification. Lastly, at 200,000, the population of Siem Reap is relatively small.

However, there has been a noticeable increase in investment activity during the past two years, particularly within the retail sector to cater to the growing number of tourist arrivals, as well the first large-scale borey development, Borey The Angkor Royal Palace.

With the announcement of a new airport – now under construction and due for completion by 2023 – as well as the completed improvement works to National Road 6, we anticipate significant growth in investment into the province with numerous projects already touted, including a water park and theme park providing more varied tourism offerings and opportunities across a number of real estate sectors.

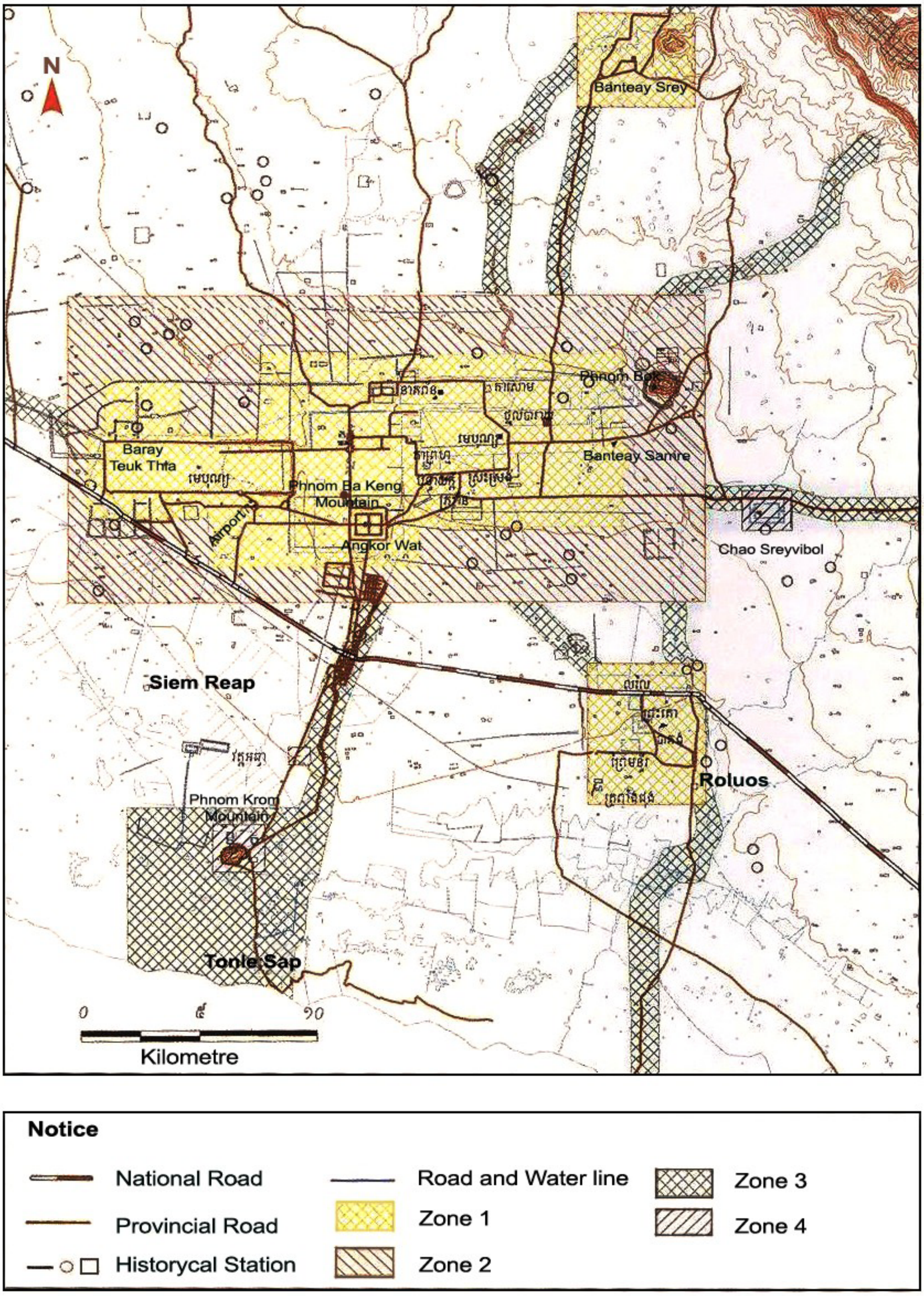
PROPOSED SIEM REAP AIRPORT (ARCHITECT RENDERING)

FIGURE 16
**NUMBER OF INTERNATIONAL TOURISTS TO ANGKOR WAT AND TOTAL REVENUE (2010-2016)**




**Source:** Knight Frank Research / Apsara Authority

# SIEM REAP'S APSARA ZONE



# HOTEL SECTOR

With the Cambodian tourism industry only opening back up after the 1991 Paris Peace Treaty, the tourism sector in the Kingdom recorded nominal growth during the early 1990s and early 2000s, with Cambodian tourist arrivals and receipts recorded at 786,235 and US$379 million respectively in 2002.

Hampered by poor infrastructure and connectivity, as well as a lack of promotional campaigns undertaken by key stakeholders, Cambodia remained a predominantly low-value, backpacker destination with the majority of hotel accommodation being hostels, guesthouses and boutique hotels.

However, driven by the world heritage site of Angkor Wat, Siem Reap has developed into Cambodia's premier tourist destination with Angkor Wat often entering into 'Top 10' lists of the world's leading tourist attractions.

Seeing great potential in the Siem Reap tourism market, several global hotel operators entered the market and the city now boasts more Luxury and Upper Upscale hotels than the country's capital, Phnom Penh. The most recent addition of international operators was the 233 key Courtyard Marriott Siem Reap, which opened its doors during H1 2018 and marked Marriott International Inc's first foray into Cambodia.

Other Luxury and Upper Upscale hotels include Raffles Grand d'Angkor, Park Hyatt, Sofitel, Anantara and the luxury Amansara Resort, part of the exclusive Aman Resorts group. Once a residence for guests of the king, the 1960s New Khmer Architecture residence was meticulously restored and opened as Amansara Resort in 2002. Now offering 24 suites, the resort commands some of the highest room rates in Cambodia.

Between 2005 and 2010, the supply of hotel rooms in Siem Reap more than doubled (figure 18), with the hotel sector becoming increasingly competitive which has negatively impacted on average daily rates and occupancy rates.

This is evident by the limited number of hotels scheduled for completion between H2 2018 and 2020. As at the end of H1 2018, the existing supply of hotel rooms was record at 11,596. The majority (63%) of which were within the Upscale & Upper Midscale category, followed by the Luxury & Upper Upscale category (24%) and the Midscale & Economy category (13%).

541 rooms across four hotels have been identified within the future supply and due for completion by 2020, comprising Luxury & Upper Upscale hotels (50%), Upscale & Upper Midscale Hotels (29%) and Midscale & Economy hotels (21%).

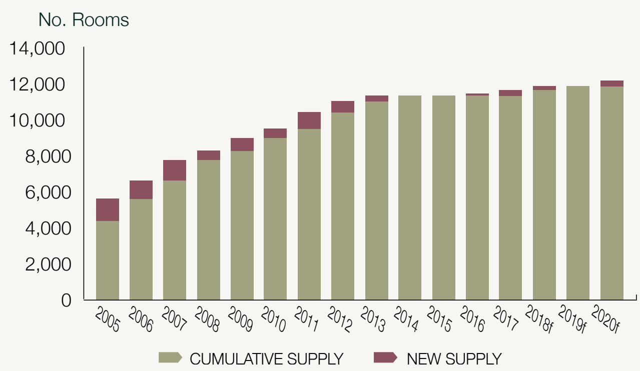
FIGURE 17

**INTERNATIONAL TOURIST ARRIVALS TO SIEM REAP**


**Source:** Ministry of Tourism

FIGURE 18

**SIEM REAP HOTEL CUMULATIVE SUPPLY**




**Source:** Knight Frank Research

## OUTLOOK:

With increasing connectivity between the three main cities in Cambodia, the construction of the new Siem Reap airport and pending entry of additional passenger airlines to Siem Reap, the medium and long-term outlook for the Siem Reap hotel sector is positive, and the market continues to capture the interest of international luxury hotels catering to a rapidly evolving tourist market.

However, whilst the Angkor Archeological Park should be on everyone's 'bucket list'; there is a need for more tourism offerings in the province to encourage tourists to stay longer and to also target repeat visitation; typically, a large percentage of international tourists to Siem Reap never return once they have visited Angkor Wat.

There is also an excellent opportunity for Siem Reap to tap into the growing Meetings, Incentives, Conferencing, Exhibitions (MICE) market, and there should be a concerted effort between key stakeholders to actively promote Cambodia and Siem Reap on the global stage.

# RETAIL SECTOR

Notwithstanding that Siem Reap continues to retain its position as the main tourist destination in Cambodia, the local resident population is comparatively small and there has been limited development of purpose-built shopping malls. Whilst tourists contribute towards foot traffic at shopping malls in major cities, they alone cannot support a large-scale shopping mall development.

Thus, the current retail offering in Siem Reap is dominated by shop-houses and local markets, particularly around the area surrounding Pub Street, providing boutique shops, a plethora of restaurants, and souvenirs and handicrafts at the local markets.

It is only within the past few years that purpose-built retail malls have started to be developed, albeit on a relatively small scale, more akin to department stores as opposed to shopping malls.

These include Lucky Mall, Angkor Trade Centre, Thai Hout supermarket, Angkor Fashion Plaza, King's Road Angkor, the Angkor Duty Free, T-Galleria and the recently opened Asia Plaza Supermarket.

As at the end of H1 2018, the total cumulative supply of retail space in Siem Reap was recorded at 28,125 sq m of net lettable area (NLA). All of the existing retail supply is located in the District of Siem Reap and the malls are all below 10,000 sq m, which would classify them as Community or Neighbourhood shopping malls.

KOULEN SHOPPING MALL (ARCHITECT RENDERING)

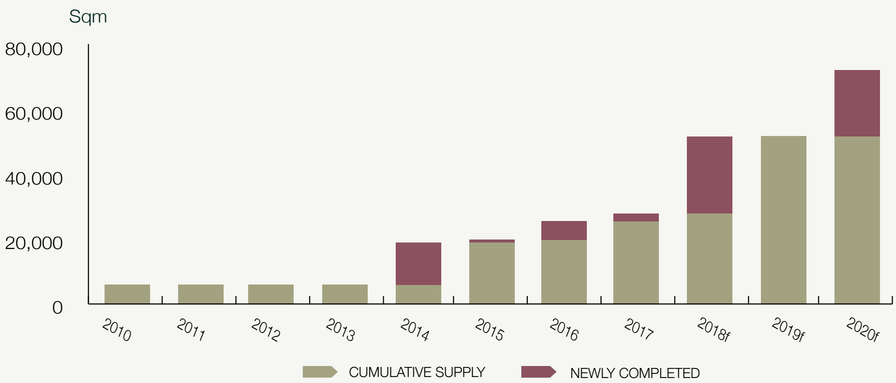
Two out of the eight existing malls are categorised as prime retail space, being the Angkor Duty Free Store and T-Galleria, however, they are both duty free outlets and, technically, Cambodian residents cannot purchase goods from these malls as you are required to provide travel documentation confirming that you are visiting Cambodia on holiday.

Despite the small population size of Siem Reap, there are several larger-scale retail malls that are under construction and due to open in 2018 and 2019, including The Heritage Walk which will provide a gross area of 40,000 square metres and has already secured several anchor tenants, many of which are food & beverage retailers.

With the official opening of The Heritage Walk expected during H2 2018 and the scheduled completion of Koulen Shopping Mall by 2020, the total supply of retail space is Siem Reap will more than double to approximately 73,000 square metres of NLA

FIGURE 19

**CUMULATIVE SUPPLY OF RETAIL SPACE IN SIEM REAP**




**Source:** Knight Frank Research

## OUTLOOK:

Although the trade area demographics in Siem Reap are not as appealing to retailers as compared with Phnom Penh, we are beginning to see increasing investment in the retail sector, underpinned by a growing population, increasing consumer spending and the projected growth in tourist arrivals over the medium and long-term, with 2017 registering the highest number of arrivals on record.

Whilst the retail sector will grow at a slower pace compared with Phnom Penh, there is still room in the market to sustain additional retail formats and several large scale regional shopping malls are believed to be in the workings.

# RESIDENTIAL SECTOR

Largely attributable to the height restrictions in force within the Apsara Zone, the small size of Siem Reap city and the large availability of land on the city outskirts, the development of condominiums has been non-existent; low-rise development has generally been in the form of shop houses, apartment blocks, small-scale, locally-owned serviced apartments and private villas.

Furthermore, Siem Reap is mainly seen as a tourism hub and is not yet on the radar of many holiday home purchasers or retirees so the market for condominiums historically has been limited.

As at the end of H1 2018, there were no completed condominium developments in Siem Reap.

We have identified 14 purpose-built serviced apartment buildings within Sla Kram, Svay Dangkum, Sla Kramaeuk, Siem Reap and Sronger communes, providing 263 serviced apartment units.

The serviced apartments available within the city have 4 levels or less due to the strict height restrictions implemented as part of the Apsara Zone protection scheme. These buildings typically offer 30 units or below.

The above notwithstanding, 2016 saw the announcement of a new development proposed for Siem Reap, Les Bijoux D'Angkor, undertaken by RGL Equity (Siem Reap). The project will provide 84 apartments within a gated community, comprising one bedroom and three bedroom duplex units located along the Siem Reap River on the way to the Anchor Archeological Park.

To cater to growing demand for residential accommodation in the province, the first large scale borey development has also been launched, Borey Angkor Palace located, in close proximity to one of Cambodia's top golf clubs, the Nick Faldo designed Angkor Golf Resort.

Covering an area of approximately 13.5 hectares, Borey Angkor Palace provides a combination of shop houses, link houses, twin houses and queen villas, as well as leisure facilities. Due to the project's success, the developer will soon launch a second project in the province.

As well as the larger scale projects, there are also a number of smaller scale projects, such as Phum Barang which won Best Residential Development (Siem Reap) at the 2017 Cambodia Property awards.

TWIN VILLA – BOREY ANGKOR PALACE (ARCHITECT RENDERING)

LES BIJOUX D'ANGKOR (ARCHITECT RENDERING)

## OUTLOOK:

Whilst condominium development has generally been confined to Phnom Penh, we see a gap in the residential market in Siem Reap, which has the potential to attract both foreign and domestic investors looking to invest in the condominium market but are wary of the oversupply situation in Phnom Penh's residential sector. An increase in the number of investors taking interest in Siem Reap can be expected due to recently completed infrastructure providing  greater accessibility from overseas destinations and from other major cities such as Phnom Penh and Sihanoukville.

At present, quality residential accommodation is lacking, predominantly due to limited historical demand. However, there is growing demand from wealthy Cambodians in Siem Reap as well as those based in Phnom Penh and we anticipate more borey developments to be launched in the coming years.

# SIHANOUKVILLE H1 2018 REVIEW

## OVERVIEW

Sihanoukville, the capital of Sihanouk Province, is situated in the south-west coastal region of Cambodia, approximately 230 kilometres from the City of Phnom Penh. Renowned for its coastal beaches and tropical islands, the province is becoming a major tourist destination and a growing industrial hub. Sihanoukville is an emerging market in Cambodia, currently experiencing a real estate boom fuelled and supported by rising Foreign Direct Investment (FDI) and diversified economic drivers.

During 2017, Sihanoukville welcomed approximately 2.5 million visitors, of which 470,000 comprised foreign tourists. Sihanoukville's sudden spike in tourist arrivals – by 120% since 2016, has prompted investors' interest, with a particular focus on gaming and hospitality.

Supported by the government, Sihanoukville is set to benefit from numerous infrastructure and transportation improvements, including the on-going road widening of National Road 4 by the Japanese International Corporation Agency (JICA).

Additionally, the growth of Sihanoukville will benefit from the new multi-purpose terminal addition to the Sihanoukville Autonomous Port (SAP). Launched in Q2 2018, this new terminal can handle more than twice the current capacity.

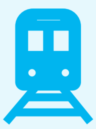
SAP, Cambodia's only operational deep-sea port, is the main gateway by sea into Cambodia and acts as the key economic path for import and export between Cambodia and other countries.

With support from JICA, a new Japanese Official Development Assistance (ODA) was executed last year for additional terminal extensions to cope with increasing logistics traffic in Cambodia.

As part of China's One Belt, One Road initiative, a toll-road concession agreement was signed between Cambodia and a Chinese state-owned company to construct a new four-lane expressway linking Phnom Penh to Sihanoukville. This new expressway, expected to begin construction in H2 2018, will improve travelling time and facilitate goods transportation. The announcements of the abovementioned infrastructure improvements has further contributed to the rapid growth of the Sihanoukville real estate market, despite the upcoming election.

Land pricing in central city and seafront locations has increased two to three-fold during the past two years due to the recent influx of Chinese investors. This has prompted not only the development of high-rise residential projects on the coast of Sihanoukville, but also international hotel chains and casinos.

### What's needed to sustain economic growth ?



Commitment to spending on infrastructure projects

Reduction in the cost of doing business, particularly utility cost

More transparency and improved market regulation

Investment in the education system to address the skill gap

A comprehensive master plan and land use zoning for the province

# CONDOMINIUM SECTOR

Prior to the tourist industry boom, high-rise residential projects in Sihanoukville were non-existant. The first high-rise residential project was launched in 2015 and was a pioneer in the market.

As at Q2 2018, there were no completed condominiums in Sihanoukville. However, 2,866 units are expected to be delivered by the end of 2018 across three projects, namely, Sunshine Bay, D'Seaview and Blue Bay.

During H1 2018, two smaller scale projects were launched; The 28 Mithona and The New Nordic, contributing 350 units and 136 units respectively to the supply pipeline. The first phase of a larger scale project, Sihanouk City View undertaken by BS Group, was also launched adding 1,200 units to the future supply.

Meanwhile, Grand Lion Group announced its first project in Sihanoukville; Lyon D'Or, a mixed development comprising 888 residential units, a Marriott branded hotel and luxury retail podium. The project is expected to launch during 2019.

An additional 15 projects were identified providing an additional 8,383 units to the future condominium stock due for completion between 2018 and post 2020, These condominiums will dramatically change the skyline of Sihanoukville.

All of the proposed and on-going developments are located in Mittapheap district. Most of the projects are focused in Sangkat Bei (76%, 6,399units), followed by Sangkat Boun (16%, 1,336 units) and Sangkat Pir (8%, 648 units). 51% of the units are within the high-end segment whilst 49% are in the mid-tier segment.

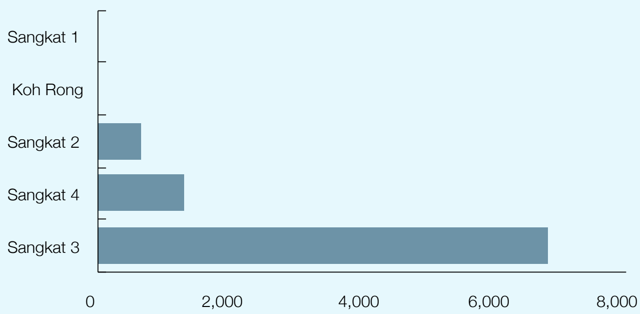
Sales of newly launched projects during H1 2018 was recorded at 50%, whilst the overall sales rate of all monitored developments was recorded at approximately 60% indicating healthy demand.

The sudden influx of developers has seen some offering special incentives to buyers. Phase 1 of Sunshine Bay was fully sold, largely due to developers providing a strong rental guarantee. Other incentives offered include loans for foreigners and flexible repayment schemes.

Pricing for the first two projects launched in 2015 started from US$1,800 per sq m of net saleable area. As at H1 2018, newly launched projects recorded selling prices from US$1,100 per sq m to US$2,300 per sq m. The average selling price of mid-tier units started from US$1,000 per sq m to US$1,800 per sq m whilst high-end units ranged between US$2,000 to US$3,000 per sq m as at H1 2018.

FIGURE 20

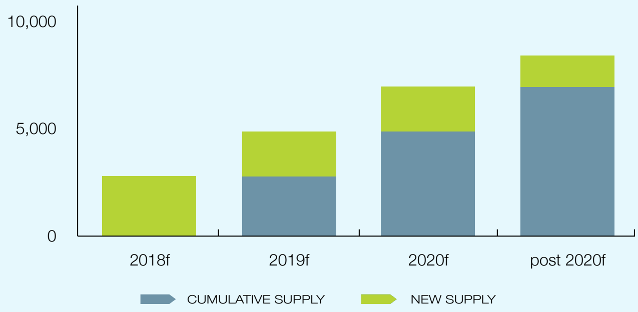
**DISTRIBUTION OF CONDOMINIUM LAUNCHES IN SIHANOUKVILLE (2015- 2Q2018)**




**Source:** Knight Frank Research

FIGURE 21

**SIHANOUKVILLE CONDOMINIUM CUMULATIVE SUPPLY (2018F-POST 2020)**




**Source:** Knight Frank Research

# OUTLOOK:

Foreign investors first started to acquire land in Sihanoukville back in the early 2000s, seeing its great potential and believing it would be the next Phuket. However, with limited investment in infrastructure, as well as the onset of the global financial crisis, the development of Sihanoukville ground to a halt and it is only since 2016 that the market has seen significant investment into Sihanoukville's real estate sector.

Unlike Siem Reap, Sihanoukville is more than just a tourist destination; it is an economic hub, home to Cambodia's only operational deep sea port as well a numerous industrial zones and agricultural opportunities, providing Sihanoukville with excellent long-term growth potential. As the city continues to grow, so too will demand for residential accommodation and we see good medium to long-term potential in this sector.

# HOTEL SECTOR

Since the debut of direct international flights to/from Sihanoukville Airport, tourist arrivals achieved record growth which has led to increasing interest from international hotel chains.

As at H1 2018, there were 32 hotels with 50-rooms and above. The existing supply was recorded at 3,100 keys, marking an increase of 13% compared to the same period in 2017.

During the first half of 2018 two new hotels opened their doors for operation, namely the Royal Sands and Gobo East. Contributing 190 keys to the existing total supply, Cambodian-owned Royal Sands consists of 67 villa pools and is categorised within the Luxury and Upper Upscale segment. Gobo East, a Myanmar-owned hotel & casino, provides 123 keys categorised within the Midscale & Economy segment.

The Majority (56%) of the existing supply is still dominated by the Midscale & Economy category, 27% is within the Upscale & Upper Midscale category, and the remaining 17% within the Luxury & Upper Upscale category.

However, the majority (44%) of future rooms will be within the Upscale & Upper Midscale category follow by the Luxury & Upper Upscale and the Midscale & Economy category. This trend is moving away from the 'backpacker' accommodation to international hotel chains expected to operate in the Luxury & Upper Upscale and Upscale & Upper Midscale category, including US based Marriott International, Intercontinental, Accor, Wyndam Renaissance, Hotel, Alila and Six Senses.

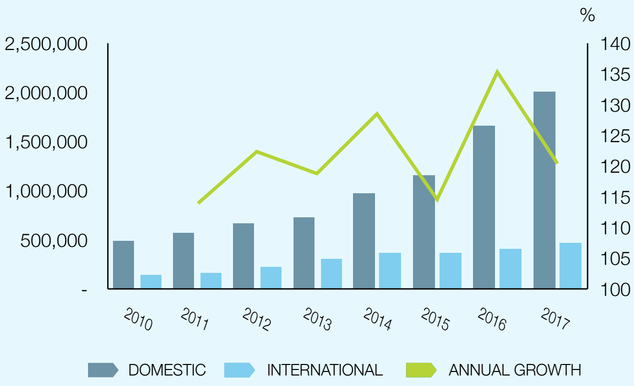
In 2017, tourism arrivals to Sihanoukville recorded at 140% Y-o-Y growth due to 2 millions visitors comprising 470,000 foreign tourists. This strong growth in tourist arrivals has led to a significant increase in the number of hotels either under construction or in the pipeline with the support set to increase by 138% to 7,391 rooms by 2020.

According to Knight Frank proprietary research, Sihanoukville hotels have performed strongly during the past 18 months recording average occupancy rates of 90% which has supported the construction of additional hotels.

The accommodation offering in Sihanoukville is slowy changing to cater to higher value tourist arrivals, with many projects in the development pipeline focused on hotel resort and casinos.

FIGURE 22

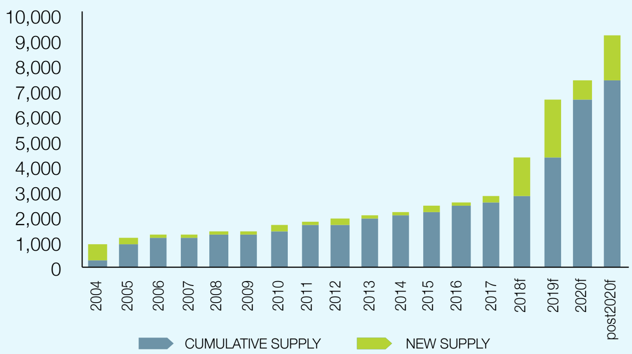
**DOMESTIC AND INTERNATIONAL TOURIST ARRIVALS TO SIHANOUKVILLE**




**Source:** Knight Frank Research

FIGURE 23

**SIHANOUKVILLE HOTEL CUMULATIVE SUPPLY**




**Source:** Knight Frank Research

## OUTLOOK:

With the introduction of direct international flights to Sihanoukville, the coastal location is now beginning to gain the traction it deserves and several international hotel operators have signed a Memorandum of Understanding with various developers. Furthermore, the completion of the exclusive Song Saa Island resort in 2012 finally put Sihanoukville on the world map, with advertised rates exceeding US$1,000 per villa per night.

Acknowledging the benefit of potential high value tourist arrivals in Sihanoukville, key stakeholders have been actively promoting Cambodia and the province has caught the attention of international hotel operators. If planned properly, Sihanoukville could become a top coastal resort destination in the region.

# RETAIL SECTOR

With a population of approximately 270,000 people in Sihanoukville province, the city has strong medium to long term growth potential due to it being both an economic and touristic hub.

In recent years, the swelling of international tourist arrivals has led international developers to acquire land for future development, which will help propel Sihanoukville into it's next stage of evolution. The city is anticipated to attract high-value tourists with a higher propensity to spend, fuelling the demand for international standard retail offerings.

This year Pedro, a well known Singaporean footwear and accessories shop, opened its doors in Sihanoukville, indicating increasing demand from international retailers to set up shop in Sihanoukville to cater to growing consumer demand.

However, as yet, there are a limited number of international retailers in Sihanoukville. Those that are present are generally within the Sihanoukville Duty Free Store, a 450 sq m shop located off the Ochheuteal Beach, offering high-end liquors and spirits, perfumes, fashion brand such as; Este Lauder, Gucci, Dior, Monte Blanc and Longinus.

As at H1 2018, there were no purpose built shopping malls indentified in Sihanoukville.

The first retail podium was announced in 2015 by Singaporean developer HLH Group within D'seaview phase 2, comprising a gross floor area of 28,683 sq m. In 2016, the launch of Blue Bay marked the second retail podium in Sihanoukville. During late 2017, 2 projects, namely; La Tree and Ocean City View, comprising retail podiums with a combined gross floor area 19,476 sq m were launched. In early 2018, local developer BS Group, previously experienced at landed housing development in Sihanoukville, launched a large scale condominium project that includes 3 floors of retail podium.

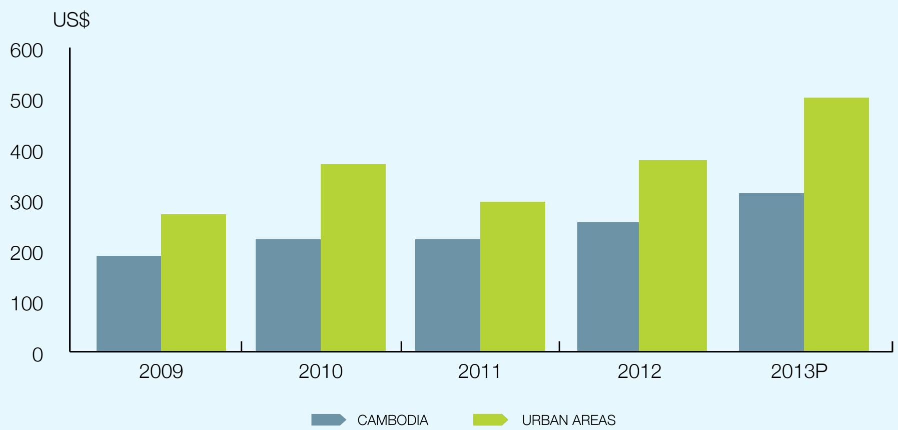
Occupying 16 hectres along victory beach, Prince Real Estate Group, one of Cambodia's largest Chinese developers, will build a mixed-use project providing additional retail space which is scheduled for complition in 2021.

FIGURE 24
**SIHANOUKVILLE POPULATION GROWTH**

| Locality | Population (000's) | | | | CAGR (2004 – 2013) | CAGR (2008 – 2013) |
|---|---|---|---|---|---|---|
| | 2004 | 2008 | 2013 | 2015 | | |
| Cambodia | 12,824 | 13,396 | 14,677 | 16,100 | 1.5% | 1.8% |
| Sihanoukville | 187 | 221 | 250 | 271 | 3.3% | 2.5% |

**Source:** National of Institute of Statistic, Ministry of Planning
* * data from worldmeters.info and JICA study team

FIGURE 25
**AVERAGE MONTHLY HOUSEHOLD DISPOSABLE INCOME**




**Source:** National of Institute of Statistic, Ministry of Planning

## OUTLOOK:

In contrast to Phnom Penh, and largely due to the small population size, the current retail offering in Sihanoukville is dominated by boutique shops, shop houses and convenience stores.

However, with Sihanoukville finally starting to take off as a key tourist destination and several internationally branded hotel developments either under construction or in the development pipeline, the demand for retail space will increase as the tourism market evolves from a predominantly backpacker destination to a regionally renowned resort destination, increasing the need for international standard retail malls.

# INDUSTRIAL SECTOR

With Sihanoukville emerging as a key industrial hub and in line with the Industrial Development Policy 2015-2025, the province has seen growing demand across the sector. This has been underpinned by China's One Belt, One Road initiative and has become an attractive destination for Foreign Direct Investment (FDI).

Expansion of the deep sea port terminal at the Sihanoukville Autonomous Port (SAP) was in response to the rapid growth of logistics traffic in Cambodia. According to a forecast report (2018-2023) by ResearchAndMarket.com, the Cambodia freight and logistics sector will register a CAGR of 9.66% between 2018 and 2023.

With numerous industrial incentives, as well as improving infrastructure, there has been a noticeable increase in Foreign Direct Investment (FDI) and Multinational Corporations (MNCs) within the Sihanoukville Special Economic Zone (SSEZ).

As at H1 2018, there were 3 operational SEZ's covering a land area of 1,361 hectres and comprising 131 enterprises, providing 19,500 jobs within the industrial sectors.

In the second quarter of 2018, four new factories were approved by the Council for Development of Cambodia (CDC) within the Sihanoukville Special Economic Zone (SSEZ). Covering 1,113 hectres, the first phase of 528 hectares currently has 125 registered enterprises of which 96 companies are operational.

Most of them are Chinese, followed by the United States, United Kingdom, South Korea and Ireland. SSEZ is planning to sign 300 companies within the economic zone, providing employment for 80,000 to 100,000 industrial workers, with the ambition of being the Shenzhen of Cambodia.

As at H1 2018, factory rental prices within SSEZ remained stable at USD2.1 per sq m per month. Long term leases (30 years-50 years) saw a slight increase with average prices of US$30 per sq m to US$35 per sq m compared with US$D28 per sq m to US$35 per sq m as at H1 2017.

## OUTLOOK:

In line with the government's commitment to the long term development of the industrial sector, Sihanoukville is witnessing significant progress to be the largest industrial hub in Cambodia. As well as strong diplomatic relationships between Cambodia and China, the sector is expected to perform well over the medium and long-term, underpinned by improving infrastructure.

The sector will be further buoyed when the extraction of oil commences, which expected to be 2019. This will drive demand across the industrial and manufacturing sectors as well as having spill over effects on other areas of the real estate market in Sihanoukville.

FIGURE 26

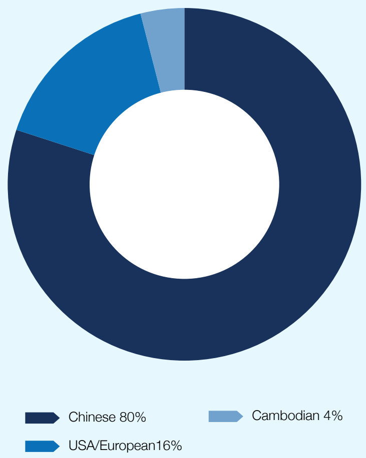
**LONG TERM LEASE PRICES FOR SSEZ, SAP, STUENG HAV SEZ**

| Developments | Long Lease Period and Price | |
|---|---|---|
| Sihanoukville Special Economic Zone (SSEZ) | 20years-50years | US$30-US$50 |
| Sihanoukville Autonomous Port (SAP) | 10Years-50Years | USD$55-US$65 |
| Steung Hav Special Economc Zone | N/A | N/A |

**Source:** Knight Frank Research

FIGURE 27

**DISTRIBUTION OF COMPANIES BY COUNTRY WITHIN SIHANOUKVILLE SPECIAL ECONOMIC ZONE**





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