RESEARCH

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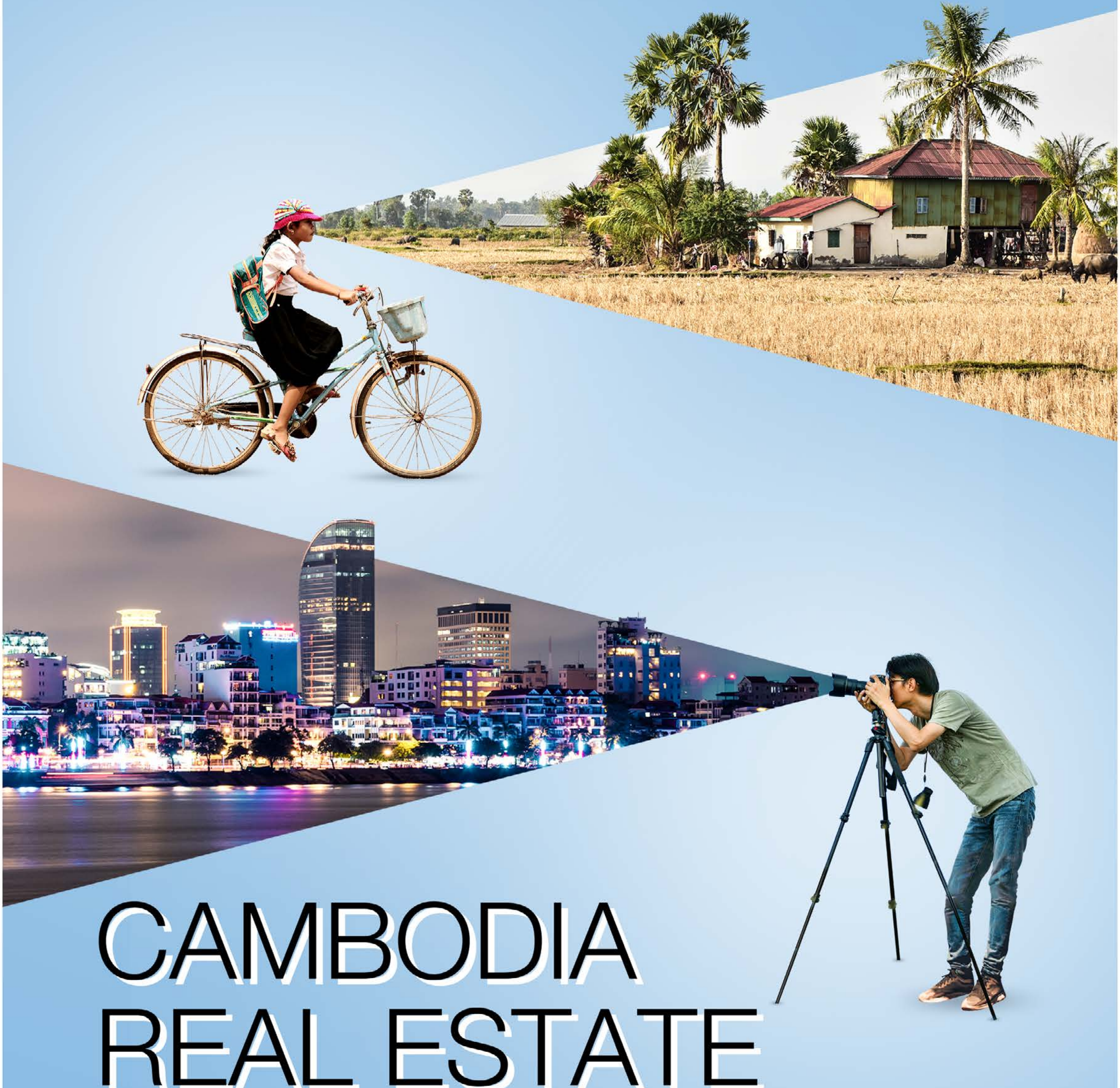


CAMBODIA REAL ESTATE HIGHLIGHTS

1ST HALF **2019**

ECONOMIC SNAPSHOT | PHNOM PENH | SIHANOUKVILLE | SIEM REAP

ECONOMIC SNAPSHOT

Cambodia's economy held firm during H1 2019 despite the geopolitical climate continuing to weigh down on global market sentiment and the strengthening of the USD

According to the National Bank of Cambodia (NBC), the Kingdom is on track to achieve GDP growth of 7.1% during 2019. This is in line with the Asian Development Bank, which forecasts Cambodia to record the highest GDP growth within ASEAN (figure 1) at 7.0% during 2019.

The NBC's bi-annual report states that GDP growth will be supported by the strong performance of the construction, real estate and tourism sectors, whilst the contribution from agriculture will continue to decline.

Data compiled by the Council for the Development of Cambodia indicates that US$5.2 billion worth of investment flowed into the Kingdom during the first half of 2019, a 46% increase compared with the same period during 2018.

Whilst investment in construction and real estate continues to dominate the local media headlines, the services and industrial sectors remain the key contributors to GDP, at 39% and 36% respectively.

Cambodia's withdrawal from the Everything but Arms (EBA) agreement has been a hot topic of discussion but the latest data from the Garment Manufacturers Association in Cambodia indicates that 34 new garment factories opened during the first half of 2019 whilst 10 ceased operation, equating to a net increase of 24 factories.

In addition to the above economic indicators, the much anticipated population census was released during H1 2019, which gave mixed signals.

Surprisingly, the population growth rate of Cambodia declined between 2008 and 2019 to 1.2% per annum compared with a growth rate of 1.6% per annum recorded between 1998 and 2008 (figure 2), and the overall population was somewhat below previous forecasts of 16 million.

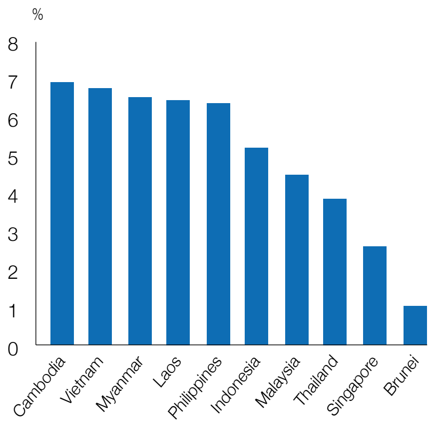
However, the growth of Phnom Penh's population was significantly above the national average between 2008 and 2019 at 4.4% per annum, compared with a growth rate of 2.9% per annum between 1998 and 2008. This can be largely attributed to an increasing urbanisation rate.

ROSS WHEBLE
Country Head

"Cambodia's withdrawal from the Everything but Arms (EBA) agreement has been a hot topic of discussion but the latest data from the Garment Manufacturers Association in Cambodia indicates that 34 new garment factories opened during the first half of 2019 whilst 10 ceased operation, equating to a net increase of 24 factories."

As Cambodia continues to develop at a mesmerising rate, now, more than ever, there is a need for accurate and in depth market analysis for investors and developers to make informed decisions based on solid market fundamentals.

FIGURE 1
2019 GDP GROWTH FORECASTS



Source: Asian Development Bank

FIGURE 2
POPULATION GROWTH (POPULATION CENSUS 2019)

Locality	Population (000's)			CAGR (1998 – 2008)	CAGR (2008 – 2019)
	1998	2008	2019		
Cambodia	11,438	13,396	15,288	1.6%	1.2%
Siem Reap	696	896	1,007	2.6%	1.1%
Phnom Penh	1,000	1,328	2,129	2.9%	4.4%
Sihanoukville	156	221	303	3.5%	2.9%

Source: National Institute of Statistics, Ministry of Planning / Knight Frank Research

KEY FINDINGS

The completion of Diamond Twin Tower, Elysee Tower and Prince Holding contributed approximately 46,444 sq m of net lettable area to the Phnom Penh office stock, taking the total supply to 463,701 sq m.

Diamond Twin Tower, a mixed development comprising condominiums, office and retail components, was the third stratified office building to be added Phnom Penh's office stock.

The new incoming supply placed downward pressure on the overall average occupancy, dropping 5.2 percentage points to 83.3% during H1 2019.

Yield-driven investors may be attracted to stratified office investments as the condominium market continues to cool down.

DIAMOND TWIN TOWER, PHNOM PENH

PHNOM PENH OFFICE SECTOR

The overall vacancy rate increased to 17% as at the end of H1 2019, a five percentage point Y-o-Y increase due to additional supply of office buildings coming on stream.

Supply and Demand

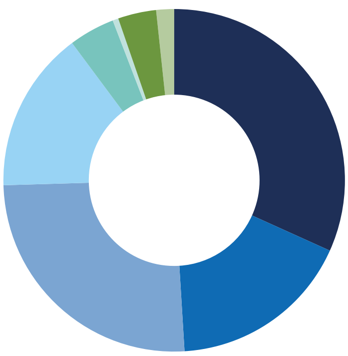
H1 2019 saw the addition of three office buildings in Phnom Penh, all within the Grade B classification.

At the end of first half of 2019, Phnom Penh office supply (rental and strata-title) increased by 46,444 sq m to 463,701 sq m, equating to an 11% increase since the end of 2018 and a Y-o-Y increase of 23%.

During H1 2019, three Grade B office buildings completed, contributing a total of 46,444 sq m namely; Diamond Twin Tower, Elysee Tower and Prince Holding.

Diamond Twin tower was the latest addition to the strata-title office basket contributing 15,235 sq m to the existing strata-title office stock, which also comprises TK Royal One and East Commercial Centre.

FIGURE 3
EXISTING SUPPLY BY DISTRICT



Source: Knight Frank Research

The total supply of strata-title office stock currently stands at 34,577 sq m and, by the end of 2019, the stock is forecasted to triple to 104,749 sq m of office NLA.

Elysee Tower and Prince Holding are both Grade B centrally owned rental office buildings, contributing 12,609 sq m and 18,600 sq m, respectively to the total office stock. Of the overall supply, 45% of existing office space was recorded as Grade C space, followed closely by Grade B at 43%, whilst Grade A space currently only represents 12% of the office market.

Post 2021, the Phnom Penh office supply will comprise approximately 1,059,170 sq m of net lettable area, a 130% increase over the existing supply.

The office stock is forecasted to increase by an additional 595,469 sq m by post 2021, if all monitored projects complete as scheduled. Four new projects launched and/or commenced ground breaking during H1 2019; Flatiron By Meridian, Golden Tower 322, Prince Haon Yu Centre and Prince Financial Tower.

Flatiron By Meridian and Golden Tower 322 will provide an aggregate net lettable area of 36,980 sq m. No information of net lettable area could be obtained for Prince Haon Yu Centre and Prince Financial Tower, therefore our analysis excludes these buildings.

As Phnom Penh's Central Business District, Daun Penh remains the most concentrated district for office buildings.

Central Phnom Penh remains the main concentration for office developments with 93% market share whilst suburban areas such as Chroy Chongva, Sen Sok and Meanchey, which are upcoming satellite cities, currently comprise only 7% of the existing stock. Existing office supply is concentrated in Daun Penh (32%), followed by Chamkarmon (25%), 7 Makara (17%), Boeung Keng Kang (15%) and Toul Kork with (4%).

Boeung Keng Kang was formally under the administration of Chamkarmon. Earlier this year, a sub-decree was issued by the government to establish Boeung Keng Kang as a standalone district.

By the end of 2019, an additional 115,421 sq m NLA spread across eight office buildings expected to complete.

45,249 sq m of the stock will be centrally retained whilst the remaining 70,172 sq m will be sold on strata title to individual owners.

Of the total incoming office stock, Grade A space will contribute 35,913 sq m NLA whilst Grade B office space will contribute 72,508 sq m of NLA.

Between 2019 and post 2021, a total of 480,047 sq m NLA of office stock will be added onto the office supply, assuming all our monitored projects are completed as scheduled.

The majority (75%) of incoming office supply will be Grade A offices, followed by Grade B (24%) and Grade C (1%).

With the sizeable amount of incoming office supply over the next few years, we anticipate a compression on occupancy rates across all grades as market demand struggles to keep pace with supply.

Occupancy rates for office buildings continued on a downward trend declining to 83.3% from 87.1% during H2 2018 and 88.5% during H1 2018.

As a result of newly completed office buildings coming online during H2 2018 and H1 2019 (mostly made up of Grade B office), the overall occupancy rate continued on a downward trend.

Grade C office recorded the highest occupancy rate during H1 2019 at 86.2%, a decline of 1.2 percentage points over H2 2018. Grade B office, however, plummeted by 14 percentage points to 82.0% as a result of the substantial increase in Grade B office supply.

There were no new Grade A offices completed during H1 2019 thus supply remained the same; with a positive net absorption, the occupancy rate improved by 3.3 percentage points compare with H1 2018 to 76.7%.

Strata-title offices recorded a relatively high vacancy rate during H1 2019 at 68%

To-date, only 32% of strata-title office space is occupied. The low occupancy rate is largely due the recent completion of Diamond Twin Tower. Furthermore, MNC's generally still prefer to take up space in centrally retained office buildings with a single owner and a more corporate style entrance lobby.

Prices and Rental

As a result of continuous office supply swelling, specifically Grade B and C, office rentals remained unchanged across all grades. Grade A, B and C offices command rentals ranging between US$28 to US$40 per sq m per month, US$18 to US$29 and US$9 to US$18, respectively (excluding service charges and tax).

The newly completed Grade B office buildings; Elysee Tower and Diamond Twin Tower, contributing approximately 27,844 sq m NLA, had asking rentals ranging between $15 to $26 per sq m. Prince Holding, however, is not available in the market for sale or rent as it is fully owner-occupied.

Within Diamond Twin Tower, the newly completed stratified office units are available for sale with prices ranging from US$2,800 to as high as US$3,600 per sq m of the NLA.

Office Sector Outlook

Office rentals are expected to remain flat due to the swelling supply of office across all grades in Phnom Penh.

Despite the growing number of foreign companies setting up in Cambodia, the net absorption rate slowed during H1 2019. With a sizeable supply pipeline, we anticipate rental rates in the near future to face downward pressure as landlords compete to fill up their buildings.

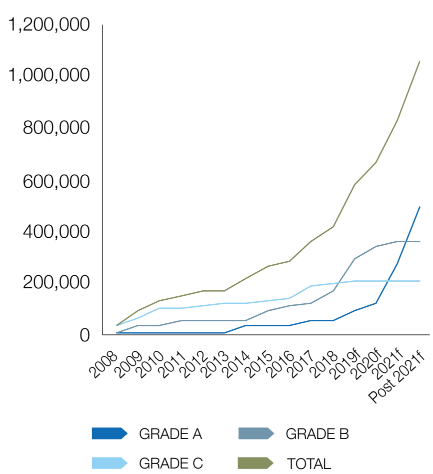
With the high-end condominium segment reaching saturation, yield-driven investors are switching their focus to stratified offices which generally provide a more stable income stream, with business tenants tending to sign longer lease terms. On top of that, office unit owners also have an option to tap into the increasingly popular co-working space market. All these factors are prompting developers to build and provide office developments.

SME companies and smaller startups looking to rent office may also be attracted to stratified offices for its capital growth potential.

The increasing number of office completions will create a more competitive office landscape with landlords of centrally retained offices competing with individual owners of strata office units. It is anticipated that owners of individual office units will likely be more flexible, especially in rental rates, to secure a tenant for their unit.

For future strata office projects, developers are well advised to appoint reputable property management companies which will enhance marketability and aide owners in securing tenants.

FIGURE 4
PHNOM PENH CUMULATIVE OFFICE SUPPLY (2008 – POST 2021F)



Source: Knight Frank Research

KEY FINDINGS

During H1 2019, three new retail malls / outlets officially opened their doors – The Olympia Mall, Midtown Mall and WB Arena bringing the total existing retail supply to 338,505 sq m of NLA.

By 2021, the retail sector is expected to deliver an additional 505,521 sq m of NLA to the retail stock bringing the total supply to 844,026 sq m, a 216% increase.

The overall occupancy rate continued to be hampered, sliding down to 80.8%, an additional 8.1 percentage point reduction since the end of 2018.

Whilst the occupancy rate declined further during H1 2019, average retail rents remained flat.

A number of prime retail podiums with trending concepts are taking shape in the city; namely The Peak, Gold Tower 42, World Trade Center Phnom Penh and Chief Tower.

THE OLYMPIA MALL, PHNOM PENH

PHNOM PENH RETAIL SECTOR

Phnom Penh's retail supply continued to increase as local developers seek to compete with international retail operators. With an abundance of new retail malls, new international brands are being drawn to the Cambodian market

Supply and Demand

H1 2019 saw the completion of the much anticipated The Olympia Mall, OCIC's key development in the heart of Phnom Penh.

During the first half of 2019, three malls were added to the total supply of retail space in the city. The largest and most anticipated was the prime grade shopping mall known as The Olympia Mall located in 7 Makara District, adding 60,000 sq m of NLA. Within the mall, more than 40% of the tenant mix is skewed toward the Food & Beverage segment and 35% toward Entertainment. During the same period, Midtown Mall and WB Arena contributed 5,000 sq m and 6,000 sq m of NLA respectively to the retail stock.

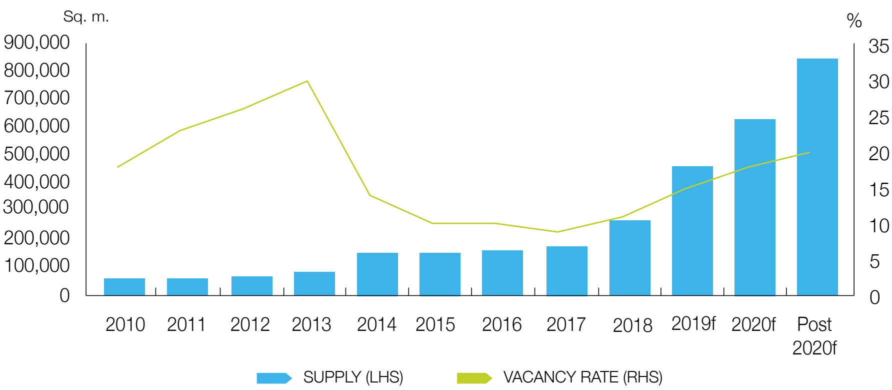
The retail supply increased by 71,000 sq m of NLA during H1 2019, equating to an increase of approximately 27% compared with H2 2018. By the end of 2019, we anticipate a further 109,947 sq m of NLA to come online spread across four projects.

By 2021, the cumulative retail supply will reach an estimated 844,026 sq m of NLA, assuming all monitored and launched projects are constructed and completed as planned. Taking into account the current existing supply, this equates to an additional 505,521 sq m onto the market, an increase of 149%.

As the city is under-going major transformation, local developers are actively seeking to build and provide commercial retail developments keeping inline with current trends. Chip Mong Group has six on-going retail projects taking shape whilst another two are being developed by Peng Huoth.

FIGURE 5

PHNOM PENH SUPPLY AND DEMAND OF RETAIL SPACE



Source: Knight Frank Research

Having achieved healthy take-up rates at both AEON 1 and AEON 2, Japanese developer, AEON, will construct a third shopping mall located in one of Cambodia's largest satellite cities, ING City, south of Phnom Penh city centre.

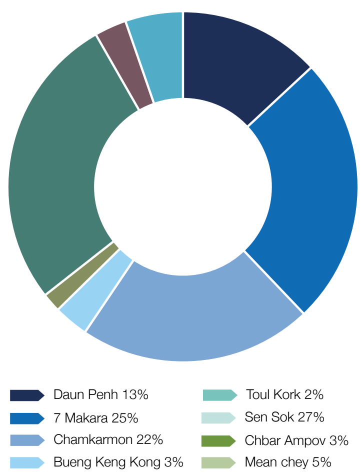
Expected to complete by 2023, the official launch of this project has yet to take place as of H1 2019. Therefore, additional details such as the rental rate, net lettable area and gross floor area are still unavailable.

Currently, 64% of the total existing retail supply is located in city centre locations whilst the remaining 36% is in suburban areas.

District wise, Sen Sok comprises the largest retail supply taking up 27% of the total supply, largely attributed to Aeon Mall Sen Sok, followed by 7 Makara (25%), Chamkarmon (22%), Daun Penh (13%), Toul Kork (2%), Boueng Keng Kang (3%), Chbar Ampov (3%) and Mean Chey (5%).

The lack of retail supply in Toul Kork District has generated interest from developers. During H1 2019, a number of small-scale retail projects (community malls) were officially announced in Toul Kork. DNC Mall, developed by Discover New City, a secondary grade shopping mall will add 6,000 sq m of NLA to the supply. On top of that, Samai Square and the Commune Mall will add 1,650 sq m and 1,552 sq m of NLA, respectively, to the overall retail supply.

FIGURE 6
DISTRIBUTION OF EXISTING RETAIL SPACE BY DISTRICT



Source: Knight Frank Research

Since the second half of 2018, the overall occupancy rate for shopping malls has been declining and continued to decline, by 8.1 percentage points to 80.8% as at the end of H1 2019. This drop is largely attributed to the incoming of WB Arena in Mean Chey and The Olympia Mall in 7 Makara. Due to their very recent completion, it will take some time before retailers fit out their units and physically occupy the vacant space.

Expectedly, the overall occupancy rate of prime retail malls experienced a Y-o-Y decline of 12 percentage points to 84% in comparison with H1 2018 whilst secondary malls' occupancy is currently recorded at 76%, a 3 percentage point Y-o-Y drop over the same period.

The Food & Beverage segment in the retail industry has been performing well in Phnom Penh. During H1 2019, this segment welcomed a number of new international brands namely JuiceTell, Who's Tea (Taiwan) and Wrap & Roll within the new Olympia Mall, and Collin's Sky Dining & Gastro Bar (Singapore) within The Bridge.

Prices and Rental

Despite new shopping malls opening and with the snowballing supply of retail malls in Phnom Penh, rental rates remained flat as a result of the growing number of retailers entering the market.

As at H1 2019, average asking rents for retail units in prime shopping centres ranged between US$31.00 to US$40.00 per sq m per month of NLA.

Secondary grade shopping malls are currently commanding an average rental rate ranging between $21.00 to US$31.50 per sq m per month of NLA (excluding service charges and tax). It is worth noting that the lower band of the range has moved upwards by US$3.00 per sq m per month since H1 2018 which was recored at $18.00 per sq m per month of NLA.

Retail Sector Outlook

The retail sector in Cambodia is under-going a dynamic retail landscape transformation. With an expanding population, especially the younger generation, the retail sector in Phnom Penh is prone to constant change to keep up with latest trends.

Cambodia's strong and stable economic growth has led to an increase in disposable income. Its younger generation coupled with the increasing number of expatriates are the main drivers of shopping mall demand, specifically the food & beverage segment. As one of the strong performers in the retail sector, a number of new international brands (in food & beverage) are entering the country to capture the market.

With the growing number of new shopping malls, older shopping malls will be adversely affected by a reduction in footfall. Such shopping malls will be required to constantly renovate, refurbish, reconfigure and modernise their concept to cater to changing expectations. Sovanna Mall publicly announced its temporary closure during Q2 2019 to undergo such process.

Completion of the on-going and upcoming retail developments is likely to lead to a compression of occupancy rates and a potential correction in rental rates. Over the next two years, Phnom Penh will welcome many prime/ major retail podiums to its retail market. The Peak by Capital Land's lifestyle retail podium is set to open in 2020 contributing 24,154 sq m of NLA and also the long anticipated Gold Tower 42, which will comprise its own retail podium, is expected to complete by 2020 as well.

The transformation of Phnom Penh's retail sector and continuous additions of shopping malls is a positive sign of the local population's acceptance toward such concepts, which will entice more international retailers/brands to set up operations in Cambodia.

KEY FINDINGS

The existing supply of hotels with 50 rooms and above was recorded at 11,120 rooms across 83 hotels as at H1 2019

The most notable completion during H1 2019 was the opening of the Courtyard Marriott Phnom Penh – Marriott's first hotel in Phnom Penh

Chinese tourist arrivals have been driving demand for the capital's Luxury & Upper Upscale hotels

The average overall occupancy rate during H1 2019 recorded a marginal increase Y-o-Y to 67%

COURTYARD, PHNOM PENH

PHNOM PENH HOTEL SECTOR

Arrivals at Phnom Penh International Airport were recorded at 5,423,000 during 2018, almost 1 million more than Siem Reap – the traditional tourism hub of Cambodia

Supply

As at the end of H1 2019, the existing supply of Phnom Penh hotel rooms was recorded at 11,120 keys, a 7.5% Y-o-Y increase

Between H1 2018 and H1 2019, 773 rooms across six hotels were added to the Phnom Penh supply, taking the existing stock to 11,120 keys reflecting a 7.5% Y-o-Y increase.

The most high profile opening was the Courtyard Phnom Penh, adding 189 keys to the capital's lodging accommodation within the Upscale & Upper Midscale category. Additionally, the well-located Emion hotel opened for business, operated by Starts, a Japanese developer / operator, adding 240 rooms within the Upscale & Upper Midscale segment.

There were three new completions within the Midscale & Economy category, which included V International (64 keys), Pasteur 51 (54 keys) and V Boutique Hotel (120 keys), taking the existing stock to 5,280 keys (representing 48% of the total existing stock).

This was followed by Luxury & Upper Upscale (30%) and Upscale & Upper Midscale (22%).

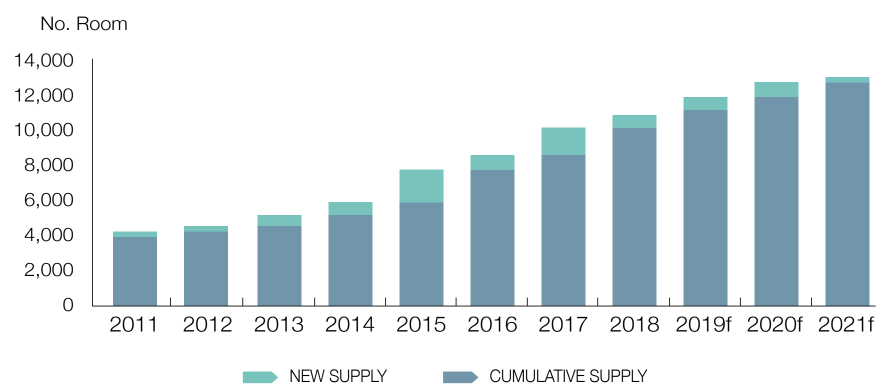
Being located within the historical city centre, encompassing both the Central Business District and Phnom Penh's main tourist attractions, the majority (37%) of the existing supply was located within Daun Penh District.

This was followed closely by Chamkarmon (27%), Boeung Keng Kang (10%), Chroy Chongva (10%), 7 Makara (7%), Toul Kork (4%), Sen Sok (3%), Porsenchey (1%) and Meanchey (1%).

As the visitor profile to Cambodia shifts up the value chain, the future supply of hotels in Phnom Penh is skewed toward

FIGURE 7

PHNOM PENH CUMULATIVE HOTEL SUPPLY (2011 - 2021F)



Source: Knight Frank Research

Luxury & Upper Upscale (40%), followed by Upscale & Upper Midscale (38%) hotels. Midscale & Economy hotels constitute 22% of incoming supply. A total of 2,043 key are scheduled to complete between H2 2019 and 2021.

Probably the most publicised hotel in the development pipeline is the recently announced Naga 3. The new addition will be located on the former White Building site, which was initially earmarked for an affordable housing development but the site was acquired by Naga Corp. Naga 3 will comprise five hotel towers providing 4,720 rooms – almost half of Phnom Penh's existing supply.

Occupancy Rates and Room Rates

Average room rates and occupancy rates increased marginally Y-o-Y, with the Luxury & Upper Upscale segment benefitting from increased demand from Chinese tourist arrivals

The number of tourist arrivals to Phnom Penh International Airport increased significantly during 2018, by 28% to 5.4 million compared with a 6% increase at Siem Reap International Airport to 4.5 million. This trend is expected to continue as Phnom Penh cements itself as the main point of entry into the Kingdom.

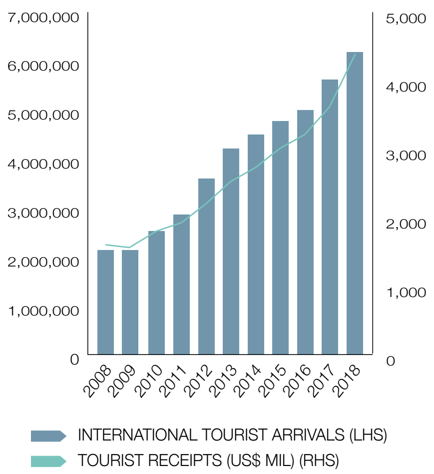
This sizeable increase can, in part, be attributed to the growth in Chinese tourist arrivals to Cambodia. In addition to the increase in arrivals, growth in tourism receipts was the largest since the global financial crisis, increasing by 21% to 4.375 billion which has underpinned demand for more luxurious accommodation.

The growth in tourist arrivals and receipts led to a marginal uptick in both occupancy and room rates across all classifications of hotel.

This trend is set to continue as the number of tourist arrivals continues to grow whilst the future supply remains manageable.

FIGURE 8

INTERNATIONAL TOURIST ARRIVALS (2008 – 2018)



Source: Ministry of Tourism

Hotel Sector Outlook

With a slew of Luxury hotels opening their doors since H1 2018, Cambodia's tourism sector is finally coming of age

The tourism sector in Cambodia continues to go from strength to strength and the outlook for the Phnom Penh hotel sector is very promising.

Demand is twofold; with the economy growing at break neck speed, there has been a noticeable increase in the number of business arrivals to the capital and this trend is expected to continue as an increasing number of overseas investors and companies look to set up shop in Cambodia, in addition to companies already in Cambodia looking for new venues for management training and retreats.

Secondly, as growth in disposable incomes keeps pace with GDP growth, there is a new emerging market which is the domestic tourism. Historically, virtually 100% of hotel guests within the Luxury & Upper Upscale segment have been foreign tourists. This dynamic is slowly shifting across all market segments and developers / operators should look at introducing internationally branded Economy hotels to cater to this key growth market.

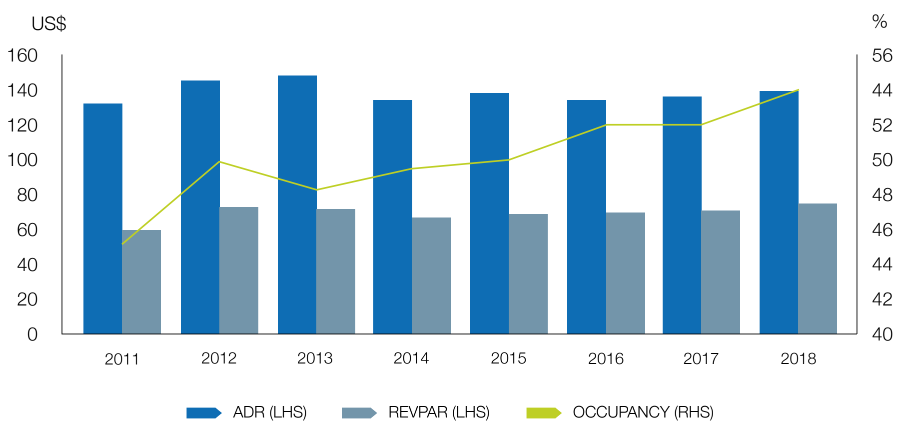
Whilst there are several budget hotels in the development pipeline, we believe the gap still exists within the Economy & Midscale and Upscale & Upper Midscale segments for internationally branded hotels to cater to both the increasing number of business arrivals as well as domestic tourism.

What Phnom Penh needs now is an international standard conference and exhibition centre to tap into the MICE market.

With the new international airport mooted to be constructed to the south of Phnom Penh, in Kandal Province, there is an opportunity to develop such a facility that is well planned, accessible and world class.

FIGURE 9

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



Source: Knight Frank Research

KEY FINDINGS

The first half of 2019 saw an additional 190 units of serviced apartments added to the existing stock.

The aggregate supply of serviced apartment was recorded at 5,497 units as at H1 2019.

The newly formed Boeung Keng Kang District has the most serviced apartments representing 36% of the total stock, followed by Chamkarmon (20%) and Daun Penh (13%).

Despite the significant increase in supply of condominiums and serviced apartments, occupancy and rental rates remained resilient due to growing demand stemming from Chinese expatriates.

Landlords/operators are still maintaining flexibility in terms of rental negotiation and duration of stay to remain competitive.


ALPHA RESIDENCE, PHNOM PENH

PHNOM PENH SERVICED APARTMENT SECTOR

Despite the addition of new condominiums and serviced apartments entering the market, the serviced apartment sector fared well with an overall occupancy rate of 74% during H1 2019.

Supply

Five new serviced apartments completed during H1 2019, namely, Monorom Apartment, Alpha Residence, Champs Elysees Apartment Khiev, Precious Serviced Apartment and Central Town.

With five newly completed serviced apartments entering the market, the total cumulative supply of serviced apartments was recorded at 5,483 units, a Y-o-Y increase of approximately 9% from the same period in 2018.

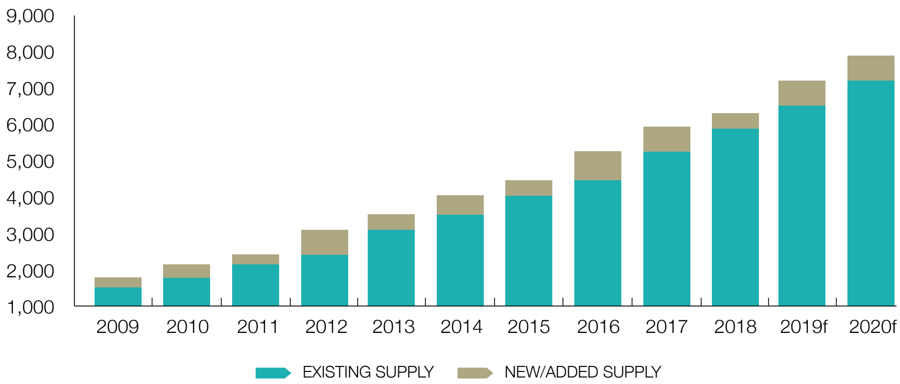
The five new serviced apartments contributed a total 176 units to the existing stock. Alpha Residences, the only new High-end serviced apartment and Monorom Apartment, which is categorised as Affordable, contributed a total 67 units to Chamkarmon District, whilst Champs Elysees Apartment Khiev, Precious Serviced Apartment and Central Town are all Mid-tier apartments contributing a total of 109 units to Daun Penh and Toul Kork districts.

Despite the new additions to Chamkarmon and Daun Penh District, the newly formed Boeung Keng Kang (BKK) District now tops the list with the most serviced apartments representing 35% of the total units, followed by Chamkarmon (20%), Daun Penh (13%) and Toul Kork (12%). BKK District, comprising 7 communes, became a separate administrative district from Chamkarmon District vide a sub-decree issued by the government in early 2019.

The remaining serviced apartments were scattered in 7 Makara (9%), Chroy Chongva (7%), Sen Sok (3%) and Mean Chey (1%).

By segment, Mid-tier serviced apartments still dominate the sector with 57% market share. Affordable and High-end stock forms 22% and 21%, respectively. Subject to location, serviced apartments remain attractive to incoming expatriates and

FIGURE 10
CUMULATIVE SUPPLY OF SERVICED APARTMENTS (2009 - 2020F)



Source: Knight Frank Research

foreigners thereby encouraging the development of additional local family-run serviced apartments, especially in the Mid-tier segment.

An additional 1,393 units have been identified within the development pipeline but are not due to complete until post 2020. This reflects a 25% increase over the existing stock assuming all monitored projects are completed as scheduled.

Rental

Rental rates for the past year have generally remained flat despite the increasing competition from the completion of new serviced apartments and condominiums.

Despite the incoming supply of serviced apartments and condominiums, rental rates were buoyed by demand growth from Chinese expatriates. The sharp rise of Chinese investments, developments and migration during the past year is sustaining demand for serviced apartments.

Central Town in Toul Kork, a newly completed serviced apartment was fully leased en-bloc by a Chinese company even prior to its full completion.

The average rental rate in the High-end segment across all districts as at H1 2019 was US$23 per sq m per month, Mid-tier was US$13 per sq m per month and Affordable was US$7 per sq m per month.

Occupancy

The overall occupancy rate increased to 74%, with the best performing sector being the Affordable segment achieving an average occupancy of 82%.

Recorded at 71% during H2 2018, the overall occupancy rate recovered marginally during H1 2019 increasing to 74%.

Location wise, 7 Makara commands the highest overall occupancy rate at 84% across all segments, followed by Daun Penh (82%) and the newly formed district, Boeung Keng Kang (80%). These 3 districts are close to the central business district and are highly sought after by expatriates.

The remaining districts recorded lower occupancy rates; Toul Kork recorded and average occupancy rate of 78%, followed by Chamkarmon (72%), Chroy Changva (70%) and Sen Sok (53%).

Located within close proximity to the CBD and offering some of the most competitive rental rates, Toul Kork recorded the largest gain in occupancy rate, increasing by 11 percentage points during H1 2019. Apart from being close to shopping malls such as Aeon Sen Sok and TK Avenue, many new retailers and food & beverage operators set up new outlets as the district becomes increasingly commercialised.

Serviced Apartment Sector Outlook

Despite the increase in inventory of serviced apartments and condominiums, the serviced apartment sector fared well during H1 2019 and the outlook remains positive.

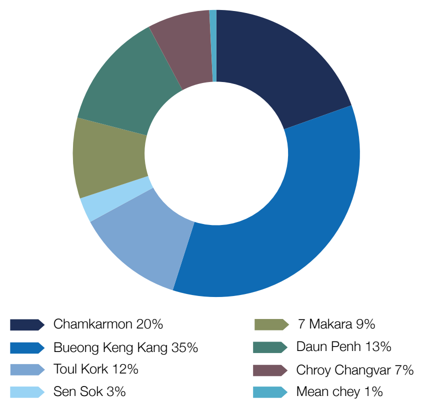
The residential market in Phnom Penh is becoming increasingly competitive with swelling supply and new launches of condominiums and serviced apartments to the market.

Similar to Sihanoukville, Phnom Penh's serviced apartment sector is benefitting from the growing influx of Chinese expatriates. Chinese companies looking to set up companies in Phnom Penh are renting apartments by bulk for their staff accommodation, and in some cases, the entire block of serviced apartments, on en-bloc.

As a result of this influx, demand for serviced apartments has sustained despite the swelling supply of condominiums and serviced apartments.

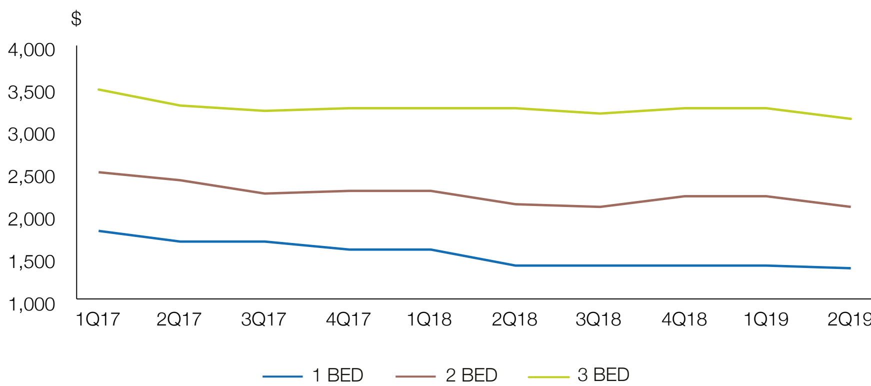
However, landlords / operators are still maintaining their flexibility in terms of rental and stay duration due to the increasing number of options available in the market. Demand for serviced apartments is expected to be remain buoyed by Chinese expatriates over the short to medium term.

FIGURE 11
EXISTING SUPPLY BY DISTRICT



Source: Knight Frank Research

FIGURE 12
AVERAGE MONTHLY ASKING RENTS FOR HIGH-END UNITS



Source: Knight Frank Research

PHNOM PENH CONDOMINIUM SECTOR

The overall sales rate during the first half of 2019 remained stable despite an increasingly fragile global macroeconomic outlook and 16 new project launches.

KEY FINDINGS

Existing condominium supply climbed to 17,532 units with the completion of 6 new developments during H1 2019.

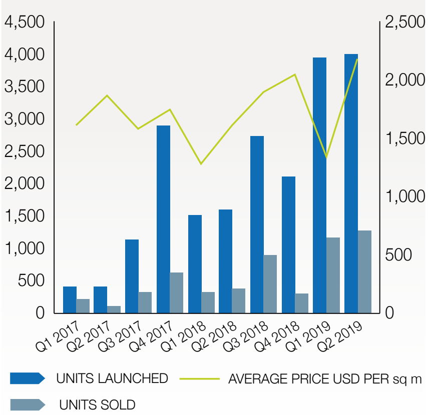
Both the High-end and Mid-tier segment condos continued growing in tandem with the current ratio at 61% and 39%, respectively.

Despite the formation of Boueng Keng Kang as a separate administrative district from Chamkarmon, Chamkarmon District still dominates the condominium supply at 38%.

Developers remained optimistic with 16 new launches identified during H1 2019, more than half of which were in the Mid-tier segment.

Affordable and Mid-tier condominiums are becoming increasingly attractive to domestic purchasers looking to stay within the city centre.

FIGURE 13
FIRST QUARTER SALES OF NEWLY LAUNCHED CONDOMINIUMS



Source: Knight Frank Research

Supply and Demand

H1 2019 saw the completion of 6 condominium projects across Phnom Penh. Market sentiment remained positive with an additional 16 launches over the same period.

As at H1 2019, the aggregate number of existing condominiums stood at 17,532; a Y-o-Y growth of approximately 50% from H1 2018. Six additional condominium projects were completed during the first half of 2019, adding 1,518 units to the total condominium supply in Phnom Penh.

The View (320 units), Embassy Central (119 units) and Urban Loft (182 units) were collectively completed during Q1 2019. Whilst the remaining three projects; Bali Scenery No. 5 (392 units), The Diamond Twin Tower (324 units) and Vista Condo of Villa Toul Sangkae (181 units) were completed during Q2 2019. Both Urban Loft and Vista Condo of Villa Toul Sangkae are in the Mid-tier segment whilst the remaining four are high-end.

Four of the abovementioned projects were spread equally between Chamkarmon and Boueng Keng Kang whilst the remaining two were in Sen Sok and Russey Keo Districts.

Boeung Keng Kang District was previously part of Chamkarmon District and now separated vide a government sub-decree during Q1 2019. Despite this administration separation, Chamkarmon still remains the district with most condominium units with 38% of total market share, followed by 7 Makara (15%), Sen Sok (12%) and both Boeung Keng Kang and Chroy Changva, each with 10%.

These were followed by Toul Kork with 6%, Russey Keo (4%), Daun Penh (3%) and both Chbar Ampov and Mean Chey, each with 1%.

The High-end segment continues to dominate the market with 10,686 units (61%) whilst the remaining supply is within the Mid-tier segment with 6,846 units (39%).

Phnom Penh's cumulative condominium supply is set to triple to 57,262 units by post 2022, assuming all the launched and announced projects are completed as scheduled. This increment equates to an additional 39,730 units being added to the total supply market, reflecting an increase of 227% from the existing stock count.

16 new off-plan launches in Phnom Penh were identified and monitored during H1 2019. Projects within the city centre included Phnom Penh Star (448 units), Royal Park (293 units), Royal Platinum Condominium (851 units), HCN Mall and Residence (640 units) and Agile Sky Residence (963 units). The remaining 11 projects were launched in suburban areas, which included Arakawa Residence (2,000 units), Thmor Madom (360 units), CPEC Roman Garden (200), La Vista One (1,750 units), Park Land TK Chip Mong (1,300 units) and Condo Versailles Square (340 units).

Approximately 60% of the new launches were in the Mid-tier segment as developers try to entice more domestic purchasers.

The shift of developers' new launches toward the Mid-tier segment will narrow the gap in the market share of High-end and Mid-tier projects. By post 2022, the High-end segment supply will be reduced to 56% whilst the Mid-tier will climb up to 44%.

Despite the overall sales rate of the existing and future monitored stock remaining flat since the end of 2018 at 15%, the sales rate of new off-plan launches increased by five percentage points to 30% with the recent influx of Chinese expatriates into the country as a key driver of demand for both the serviced apartment and condominium market.

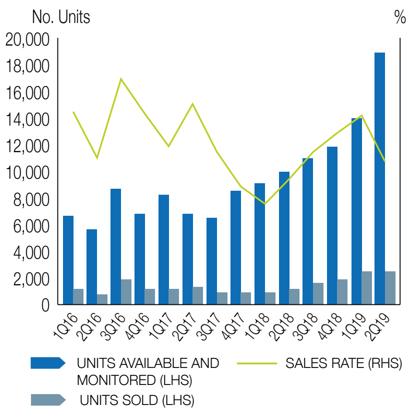
Prices and Rental

A slight increment in average prices was noted during H1 2019 across both High-end and Mid-tier segments in comparison to H2 2018

The average selling prices for new off-plan launches saw a slight increment from H2 2018. Although most of the launches were focused within the Mid-tier segment, a number of newly launched High-end condominiums during Q2 2019 in both city centre and suburban locations drove the average price up.

The most notable launched project was the luxurious 44-storey Agile Sky Residence. Developed by Agile Group Holding Limited, this condominium is located in Boeung Keng Kang 3, Boeung Keng Kang District. BKK District is a prestigious district and surrounded by numerous High-end and Mid-tier residential and commercial properties.

FIGURE 14
QUARTERLY SALES OF MONITORED AND AVAILABLE CONDOMINIUM UNITS (1Q2016-2Q2019)



Source: Knight Frank Research

Selling prices for Agile Sky Residence start from US$126,000, with an average selling price of US$3,000 per sq m over the net saleable area. This condominium offers buyers a choice of 1 to 3-bedroom units.

Another notable project is Thmor Madom Condominium. Launched in the first quarter of 2019, it is located in a growing satellite city in Sen Sok District. This project comprises a total of 360 units selling from $1,500 per sq m over the net saleable area, subject to size and level differences.

CPEC Roman Garden, located in the same district as Thmor Madom Condominium, comprises 200 units that are similarly priced, selling from US$1,550 per sq m over the net saleable area. Both projects are in close proximity to one another and are also both Mid-tier projects.

Location and segmentation continue to play major roles in price differentiation between condominium projects. New off-plan launches in the Mid-tier segment were priced from US$1,100 per sq m over the net saleable area whilst High-end projects ranged from US$2,200 per sq m to US$3,500 per sq m over the net saleable area.

Condominium Sector Outlook

Despite the growing domestic interest toward condominiums, foreign purchasers were still the main driver of demand for newly launched projects.

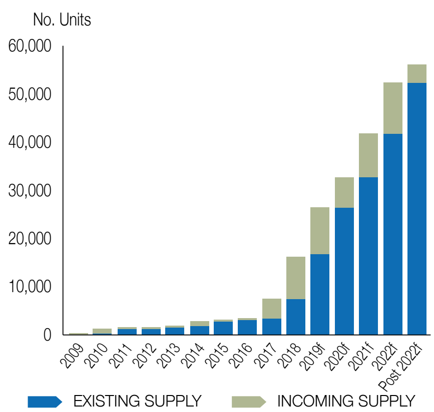
The recent influx of Chinese expatriates to Phnom Penh has certainly assisted absorption rates of condominiums. With a rapid urbanisation rate, increasing prices of landed houses as well as worsening traffic conditions in the city, domestic purchasers looking for homes are gradually assenting the idea of condominium living in the city centre as opposed to a landed home on the outskirts of the city.

However, domestic purchasers comprising young families and middle-class workers will only consider condominiums within the Mid-tier segment whilst a handful of wealthy Cambodians may consider a High-end condominium in landmark developments as second homes. Hence, most of the High-end condominiums continued to be absorbed by foreign investors, enticed by rental yields.

The increasing supply of condominiums in the city is expected to have an adverse impact on prices and rentals. However, we do not anticipate a sizeable correction as the market still tends to be cash driven, and we do not anticipate large numbers of distressed sellers. As for rentals, condominiums will need to be priced more competitively, lower than serviced apartments, in an attempt to lure expatriates living in serviced apartments moving to condominiums.

By 2022, assuming all the launched projects are completed as scheduled, Phnom Penh will see a more balanced ratio of High-end and Mid-tier condominiums. Should the increasing interest from domestic purchasers persist, it is likely that the ratio of occupiers between expatriate and locals will even out as most domestic purchasers whom bought condominiums are for own residence, hence creating a more sustainable demand.

FIGURE 15
CUMULATIVE SUPPLY OF CONDOMINIUM UNITS (2009-POST2020F)



Source: Knight Frank Research

PHNOM PENH LANDED HOUSING SECTOR

The rapid increase of Phnom Penh's Boreys (gated and guarded community) underpins that this concept is well-received; international developers are also starting to tap into this segment given its exponential growth with an optimistic market outlook.

KEY FINDINGS

Phnom Penh's existing landed housing stock was recorded at 51,278 units as at H1 2019 distributed across 131 borey developments.

18 new projects were launched during H1 2019 with an average sales rate of 44%, marking a 10 percentage point improvement over H2 2018.

By 2021, the cumulative supply of landed housing is estimated to increase to approximately 73,827 units; an additional of 22,549 units, reflecting an increase of 44%.

Average pricing during H1 2019 appreciated notably in comparison to H2 2018 - from US$715 per sq m to US$940 per sq m of the gross floor area.

Supply and Demand

Landed housing developments (Boreys) offer a wider variety of choices to homebuyers depending on their affordability and preferences. Current available units types include Shophouses, Linked Houses, Twin Villas, Queen & King Villas.

As at the end of H1 2019, the total existing stock of Phnom Penh landed houses increased to 51,278 units across 131 different housing developments, marking an 11% increase from H2 2018.

Of the total existing supply, 2,012 units (4%) were located in the heart of Phnom Penh whereas 49,266 (96%) units were located in the outskirts or suburban districts.

In contrast to condominium developments, landed housing projects are typically more concentrated in suburban districts as opposed to city centre.

Sen Sok District has the highest concentration of borey developments representing 27% of the total existing stock. This was followed by Russey Keo and Kamboul District, a new subdivided district that was formerly part of Porsenchey District, both representing 12% each followed by Dangkao (11%) and Mean Chey (10%)

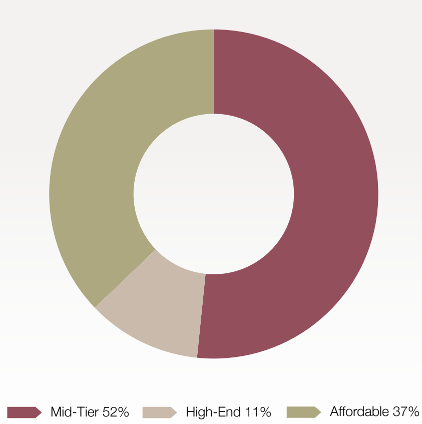
The remainder were in Daun Penh (1%), Toul Kork (1%), Boeung Keng Kang (0.3%) and 7 Makara (0.15%), Chbar Ampov (8%), Chroy Chongvar (7%), Por Senchey (6%), Prek Pnov (3%).

As with condominiums, Knight Frank categorises landed houses as Affordable, Mid-tier and High-end. The Mid-tier segment had the largest share with 52% of the overall supply, followed by the Affordable segment with 37% and the High-end segment with 11%.

An estimated 22,549 additional landed houses are scheduled for completion and anticipated to handover by 2021. As a result, the cumulative supply is estimated to increase to 73,827 units in total stock. Within the future supply, 59% were categorised as Mid-tier followed by 33% in Affordable and the balance 8% in High-end.

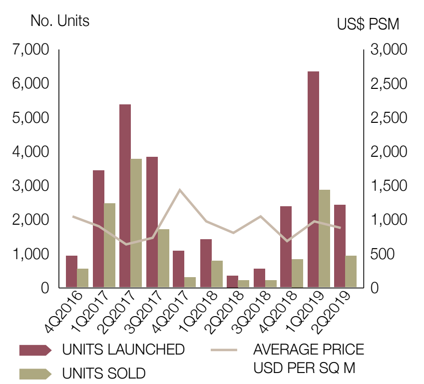
Phnom Penh is undergoing rapid development and transformation. The growing population has led to increasing demand for housing. During H1 2019, there were 18 new housing projects launched in Phnom Penh.

FIGURE 16
EXISTING SUPPLY BY SEGMENT



Source: Knight Frank Research

FIGURE 17
UNITS LAUNCHED, SOLD & AVERAGE PRICE



Source: Knight Frank Research

New project launches included Eden Garden Residence (87 units), Landmark 60M (885 units), Landmark 271 – Phase 2 (316 units), Peng Huoth the Mera Garden (1000 units), New World Kour Srov 3 (1,555 units), Vimean Phnom Penh (450 units) in Russey Keo District and New World Kour Srov 3 Tmey in Dangkao District, developed by New World and contributing a further 1,200 units.

Not showing any signs of slowing, housing developers continue to aggressively launch new projects, and landed housing remains the preferred choice of residence by domestic purchasers.

Subsequent to the General Election in 2018, the sales rate gathered paced during H1 2019. Sales of new launches during Q1 2019 and Q2 2019 were recorded at 45% and 39%, respectively. The overall average sales rate during the first half of 2019 was recorded at 44%, 10 percentage points higher than H2 2018.

However, it is worth noting that these optimistic sales rates are largely attributed to positive sales from New World Kour Srov (Phase 2), which was 80% sold out and New World Kour Srov 3 which was 66% sold out. Both of these developments are located in Dangkao District and launched by a local well-known developer, Hong Piv.

In addition, Varina Landed Housing achieved a sales rate of 60% and MongKol Phnom Penh 6 achieved a first quarter sales rate of 70%.

Two additional projects during H1 2019 contributing high sales rate were Varina in Sen Sok District and Mongkol PhnomPenh 6 in Chroy Changva District achieving sales of 60% and 75%, respectively.

Prices and Rental

The average pricing of the 18 new launches in H1 2019 saw a notable increase in comparison to projects launched during H2 2018 – from US$715 to US$940 per square metre of gross floor area.

More than half of all new launches during H1 2019 were categorised as Mid-tier. Pricing for Mid-tier housing ranged from US$801 to US$1,700 per sq m of gross floor area (GFA) whereas the High-end housing starts from US$1,701 per sq m of GFA. Affordable housing is priced below $801 per sq m of GFA.

Projects were launched within each housing category during H1 2019, with prices ranging between US$750 to US$1,700 per sq m of GFA.

During H1 2019, the average selling price of the newly launched landed housing projects was recorded at US$ 940 per sq m of GFA, equating to a 66% Y-o-Y increase over the same period during 2018.

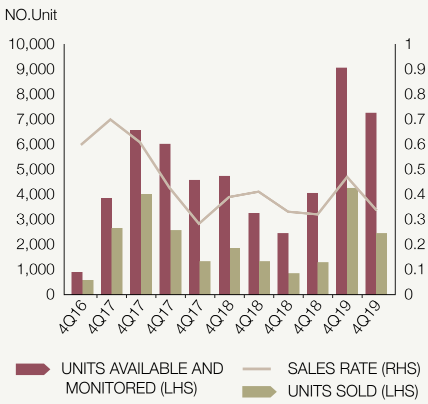
FIGURE 18

CUMULATIVE SUPPLY BY YEAR

Source: Knight Frank Research

FIGURE 19

SALES RATE OF TOTAL UNITS AVAILABLE AND MONITORED BY QUARTER



Source: Knight Frank Research

Landed Housing Sector Outlook

The general outlook of Phnom Penh's landed housing market remains optimistic and the trend of increasing project launches is expected to continue over the short and medium term

The sudden spike of new launches (18 projects) during the first half of 2019 marks developers' confidence toward building and providing landed housing.

Phnom Penh is undergoing an urbanisation process; on top of the growing domestic population in the city, the influx of foreign expatriates is driving demand for export landed housing.

As land prices continue on an upward trajectory and due to the low density nature of landed housing development, in addition to improving infrastructure, local developers are more likely to source for land in outer city, suburban locations for development in order to be competitive in terms of pricing. Consequently, the growth of landed housing is expected to continue taking shape in suburban areas as opposed to the city centre.

It is no longer feasible to provide Affordable or Mid-tier landed housing in the central areas of Phnom Penh. The development of borey projects in city fringe locations will also drive demand across other real estate sectors and satellite cities will start to emerge along with decentralised office and commercial hubs, as residents seek to avoid commuting into the city centre.

ELYSEE, DIAMOND ISLAND, PHNOM PENH

SIHANOUKVILLE H1 2019 REVIEW

OVERVIEW

Over the last three to four years, Sihanoukville has become an increasingly important province for Cambodia, firmly establishing itself as the Kingdom's secondary economic hub and attracting many international investors, which is currently dominated by inbound investment from China across a number of different sectors.

With Cambodia being a strategic partner of China under China's Belt and Road Initiative, Sihanoukville has benefitted from sizeable investments in the industrial sector, including arguably Cambodia's most successful industrial zone, the Sihanoukville Special Economic Zone, the residential and commercial sectors, gaming and hospitality, and also soft infrastructure including a new hospital.

However, the current construction boom has also impacted negatively on the province; the sustained demand for land has pushed prices higher than prime beachfront land in both Thailand and Vietnam, which have more established tourism markets. The increase in rents for accommodation and business premises has skyrocketed, leading to many residents and business owners having to relocate outside of the city centre.

Furthermore, the intensity of construction has placed additional strain on the province's infrastructure, with the roads not having sufficient load bearing tolerances for heavy goods vehicles transporting construction material, which has led to a rapid deterioration of road surfaces, and increased traffic congestion within the city and between Sihanoukville and Phnom Penh.

The above notwithstanding, the upgrading and expansion of Sihanoukville was long overdue; it is, after all, a major economic hub with Cambodia's only operational deep sea port and offshore oil reserves from which extraction is due to start in the very near future.

However, there needs to be a holistic approach to the development of Sihanouk Province, with clearly defined zones for industry, agriculture, high-rise development and tourism zones, and the preservation of national parks and areas of natural beauty. It is therefore timely that the Government has released a land use map (overleaf) for the province, which is much welcomed.

To further support the rapid development of Sihanouk Province, the Phnom Penh-Sihanoukville Expressway officially began construction in Q1 2019. With an estimated cost of US$2 billion, the Phnom Penh – Sihanoukville Expressway will extend to approximately 190 kilometres.

During H1 2019, investment into the province continued unabated. According to the Provincial Department of Land Management, Urban Planning and Construction, a total of US$1 billion was invested in the Sihanoukville construction sector during 2018, with construction licenses granted for 297 projects, up 58% compared with 2017.

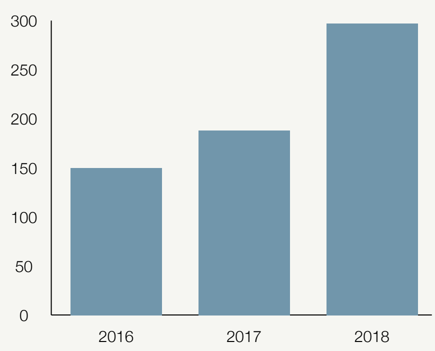
This demand for real estate has pushed rental prices higher than Phnom Penh in certain locations and the sales prices of condominiums is also nearing parity with the capital.

However, rental growth is expected to remain flat over the short term as prices are nearing their ceiling and supply is set to increase significantly over the coming years.

Overall, whilst there will be short term disruption to the province in the midst of the current construction boom, the long term fundamentals for Sihanoukville are sound and there exists opportunities across all real estate sectors.

FIGURE 1

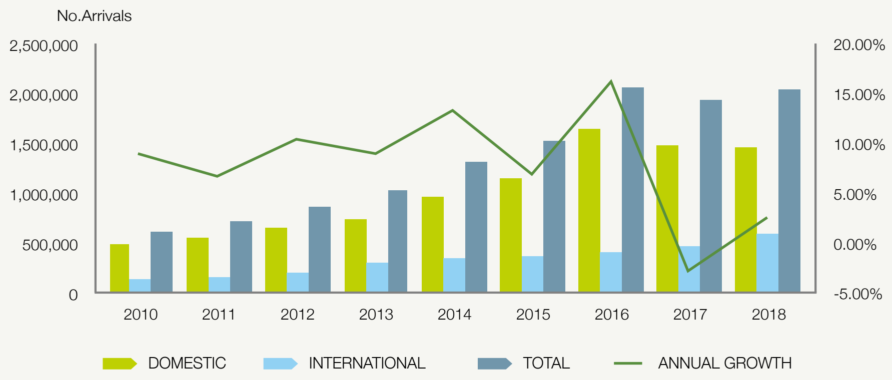
NUMBER OF APPROVED CONSTRUCTION PROJECTS BY YEAR OF 2016-2018



Source: Ministry of Land Management, Urban Planning and Construction

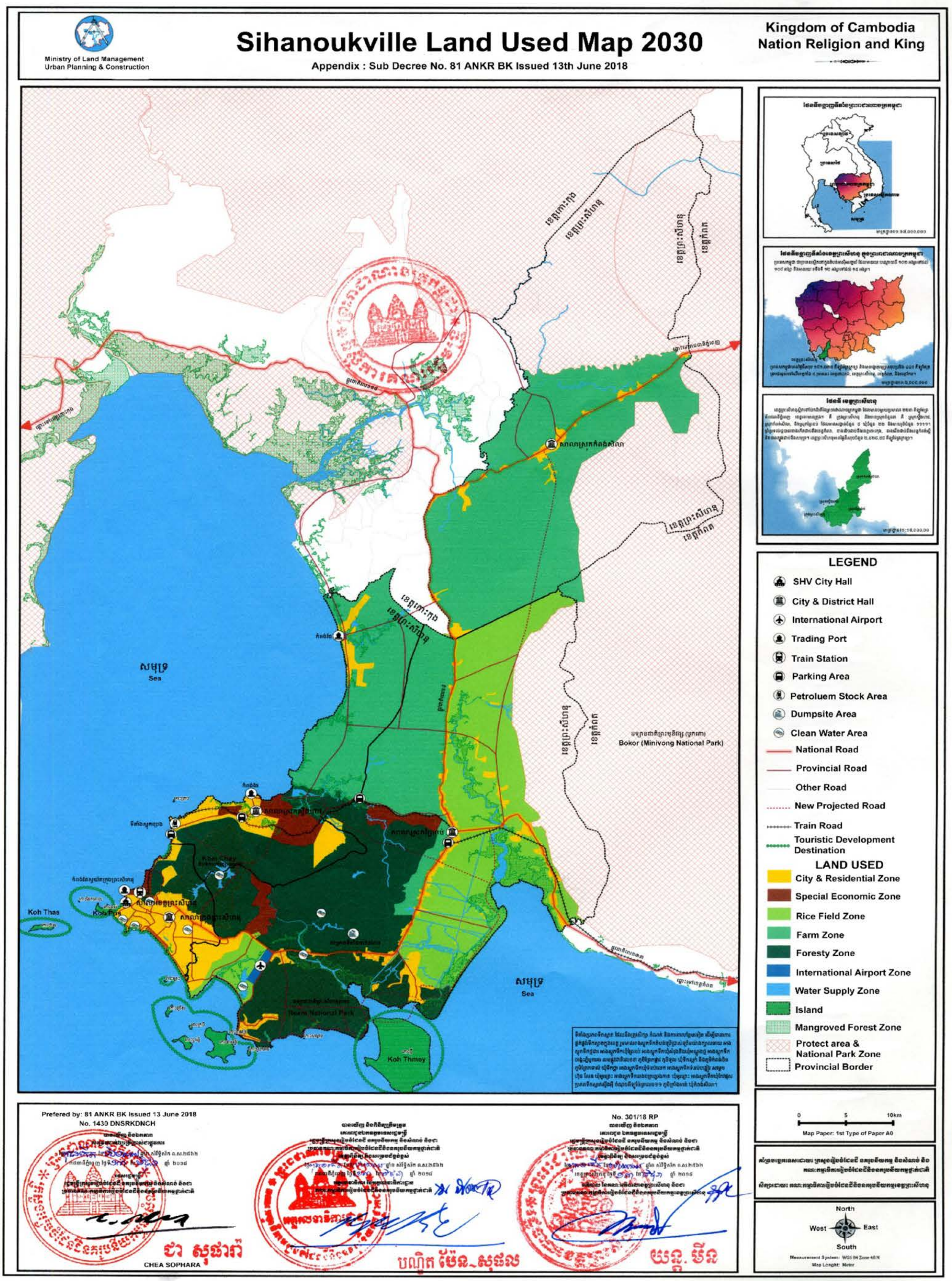
FIGURE 2

DOMESTIC & INTERNATIONAL TOURIST ARRIVALS IN SIHANOUKVILLE (2010-2018)



Source: Ministry of Tourism

Sihanoukville Land Use Map 2030



Source: Ministry of Land Management, Urban Planning and Construction

CONDOMINIUM SECTOR

Historically, large scale condominium development was confined to the capital city of Phnom Penh. The wave of Chinese investment into Sihanoukville makes it one of the most active provinces in the Kingdom for real estate development with numerous high-rise residential projects springing up throughout the coastal province.

As at H1 2019, the cumulative supply of condominiums was recorded at approximately 537 units with more than 17,000 units under construction and scheduled to complete between H2 2019 and post 2021.

One of the most notable existing condominium projects is the beach fronting Sunshine Bay, located along Independence Beach. Initially sold to individual investors, the property has now been leased en-block to Golden Sands Hotel Group to be operated as a hotel. This project contributed 340 units to the total stock count in Sihanoukville. Other completed condominiums and apartments are small scale projects; namely, Classic Condo, Cvik Apartment 1 and Cvik Apartment 2, providing a combined 197 units.

Between H2 2019 and post 2021, a further 17,997 units spread over 27 on-going projects are scheduled for completion.

18 of these projects are large-scale projects, with 71% of the units categorised as High-end. The remaining 29% are within the Mid-tier segment.

In terms of geographic distribution, Sangkat Bei currently comprises the most completed condominium units with 83% of the overall supply; the remaining 17% are located in Sangkat Pir. In terms of future supply, Sangkat Bei continues to dominate the overall supply with the largest number of new launches during the first half of 2019 recorded at 7,189 units.

Assuming all launched projects are completed as scheduled, the condominium distribution will be concentrated in Sangkat Bei (77%), followed by Sangkat Boun (20%) and Sangkat Pir (3%).

New launches in Sangkat Bei included Star Bay, Treasure Bay, Prince Golden Bay, Shanghai Bay, Prince Tian Xi Wan, Morgan Peninsula Garden, Seaside Resort and 88 Residence.

With the rapid development of Sangkat Bei, both the adjoining communes, Sangkat Pir and Sangkat Boun, experienced a direct spillover effect. The first half of 2019 saw the launch of The New Landmark and Xingshawan Bay Residence, both comprising 1,550 units.

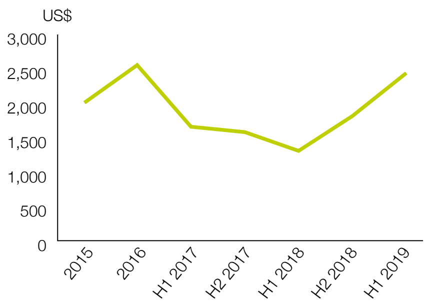
By post 2021, assuming all the identified projects are completed, the total supply will swell to 18,534 units, resulting in a growth rate of 245% per annum from 2018.

Take-up rates of newly launched projects were encouraging, recorded at 40% for projects launched during H1 2019 with the overall sales rate indicating a healthy demand at around 50%.

Average selling prices of newly launched condominiums during H1 2019 were recorded at US$2,460 per sq m over the net saleable area, almost doubling from the average pricing during H1 2018 of US$1,328 psm of Net Saleable Area, largely due to the launch of High-end condominiums outpacing Mid-tier units.

FIGURE 3

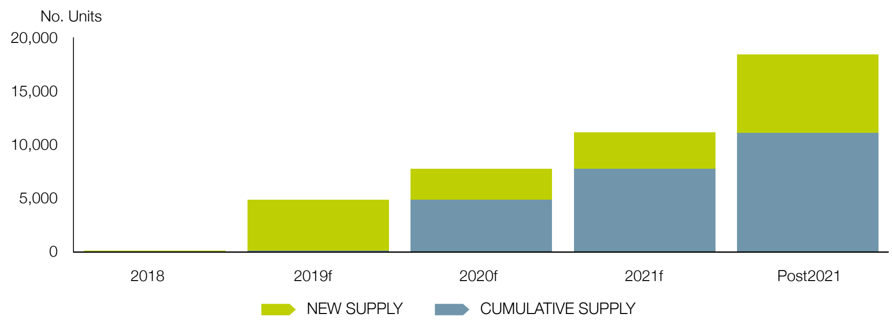
AVERAGE LAUNCHED PRICE IN SIHANOUKVILLE (2015-H12019)



Source: Knight Frank Research

FIGURE 4

SIHANOUKVILLE CONDOMINIUM CUMULATIVE SUPPLY (2018-POST 2021F)



Source: Knight Frank Research

Outlook:

As the most active coastal province in Cambodia, demand for condominiums in Sihanoukville is largely driven by Chinese investors and purchasers, most of whom purchased for investment purposes. As a result of the scarce beachfront land, beachfront condominiums with sea views are able to command a much higher premium in terms of pricing. Despite the premium pricing, sales rates are still very encouraging for such units. We anticipate pricing for beachfront condominiums to continue to escalate due to the reducing availability of prime beach front land.

Developers' confidence and positive market sentiment toward Sihanoukville was evident by successful launches of several large-scale developments in recent years. As the nation's next tourist hub after Siem Reap, we anticipate that Sihanoukville will witness a rapid transformation over the medium to long term into a booming tourist and economic hub.

HOTEL SECTOR

The Sihanoukville tourism and hospitality sector is rapidly evolving, in line with Cambodia as a whole, shifting away from the traditional 'backpacker' market to cater to higher value tourist arrivals.

Growth in direct flights to Sihanoukville is a key driver of the tourism and hospitality sector. In 2018, Sihanoukville airport registered a 92 percent Y-o-Y growth in tourist arrivals, servicing an estimated 650,000 incoming passengers.

China continues to be the lead source market, followed by neighboring countries including Malaysia and Vietnam.

As at H1 2019, the existing supply of hotels with 50 rooms and above in Sihanoukville was recorded at 5,238 rooms across 46 hotels, reflecting an increase of 69% compared with the same period in 2018.

H2 2018 to H1 2019 saw the highly anticipated openings of the Luxury & Upper Upscale (5 Star) Six Senses Koh Krabey, Alila Koh Russey and Shinta Mani Wild, whilst openings within the Upscale & Upper Midscale (4 Star) segment included Prince Time Hotel, Xihu Hotel, Nahai Pearl Hotel and Sunshine Bay Hotel, providing an additional 1,581 keys.

The Midscale & Economy (3 Star) segment still dominated the market at 44% of the overall existing supply, followed by the Upscale & Upper midscale (4 Star) segment at 39% and the Luxury & Upper Upscale (5 Star) segment at 17%.

By location, Sangkat Bei remains the preferred choice and comprises 53% of the existing supply in Sihanoukville, followed by Sangkat Boun (40%), Koh Rong (4%) and Ream (3%).

Between H2 2019 and Post 2021, an additional 7,880 hotel rooms are scheduled for completion, the majority of which (46%) are within the Upscale & Upper Midscale segment, followed by Luxury & Upper Upscale hotels (32%) and Midscale & Economy (22%) hotels.

If all hotels complete as scheduled, the supply in Sihanoukville will surpass that of Phnom Penh. The total number of rooms will stand at approximately 13,118, resulting in an increase of 150%.

Notable added projects during H1 2019 included Prince Tian Xi Wan, New Landmark Hotel, Nan Hai Hotel and Sokha Bayview.

Construction of the future hotel supply is currently dominated by Chinese developers.

FIGURE 5

SIHANOUKVILLE HOTEL CUMULATIVE SUPPLY (2004-POST2021)

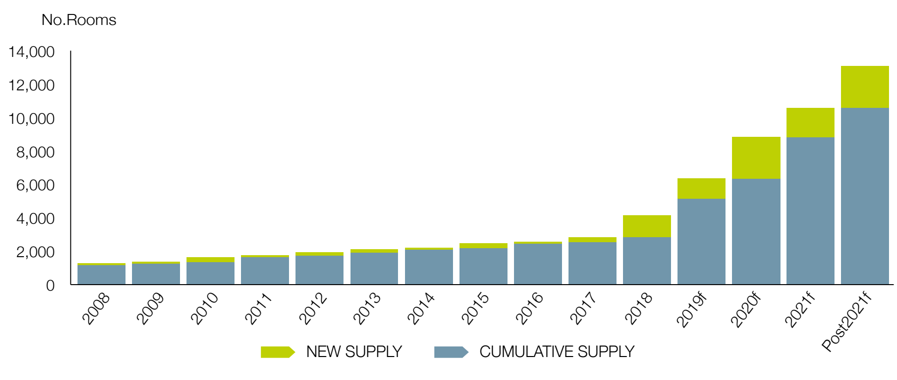
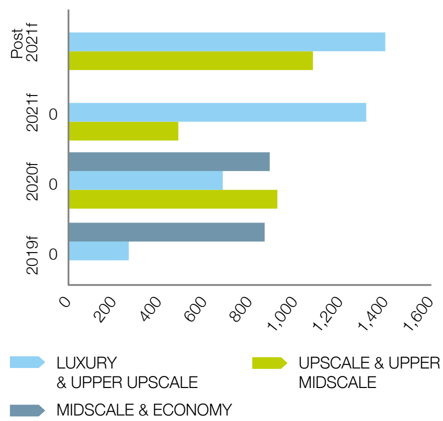


FIGURE 6

FUTURE DISTRIBUTION BY YEAR AND CLASSIFICATION



Source: Knight Frank Research

Outlook:

The growth in tourism arrivals has been underpinned by an increasing number of direct flights to Sihanoukville, especially the connectivity with China. Recently, several Chinese owned airline companies launched direct flights from cities in China to Sihanoukville, indicating that Chinese tourists and business travellers are expected to increase substantially.

Over the medium to long term, the Sihanoukville hotel sector is anticipated to expand exponentially, especially in the Luxury & Upper Upscale and Upscale & Upper Midscale categories, as we see a number of new hotels in future pipeline being operated by International hotel operators including US based Marriott International, Intercontinental, Accor, Wyndham and Renaissance.

RETAIL SECTOR

The rapid development and evolution of Sihanoukville has left a gap that needs to be filled in the retail sector. Sihanoukville is set to attract high-value tourists with a higher spending propensity which is fueling demand for international standard retail offerings.

During H2 2018, the first purpose-built shopping mall project known as Furi Time Square Mall announced its ground breaking. This US$10 million joint-venture project between Furi Real Estate and other international investors will provide a net lettable area of 12,000 sq m and is scheduled to complete by the end of 2019.

To enhance marketability, larger scale residential and hospitality projects typically include a retail podium in the overall component mix, hence most of the on-going projects in Sihanoukville comprise retail podiums.

As an active province in terms of real estate development with various on-going projects in the pipeline, eight residential developments comprising retail podiums are expected to deliver a total net lettable retail space of 86,711 sq m between the second half of 2019 and post 2021.

Over the next three years, assuming all launched and monitored developments are completed as scheduled, the total retail space within the coastal province is forecasted to increase to 98,711 sq m of NLA.

The introduction of Furi Time Square Mall to Sihanoukville, with an average pre-leasing rental price ranging between US$45 per sq m to US$55 per sq m, puts Sihanoukville retail rents at some of the highest in the Kingdom, surpassing even that of Phnom Penh.

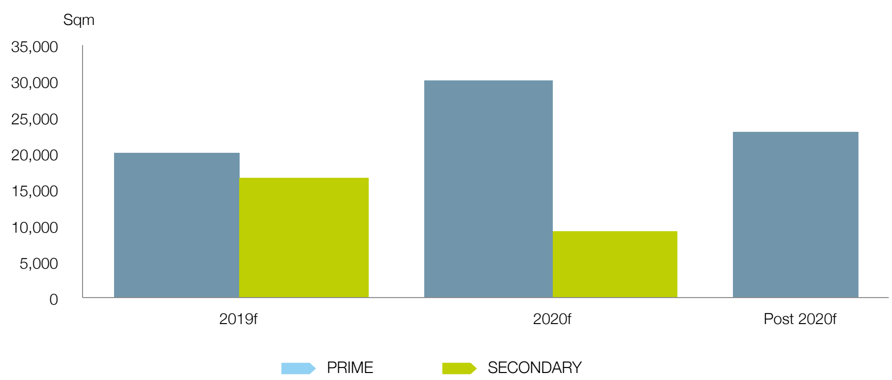
Furi Time Square Mall, slated to open by the end of 2019, has already achieved a 90% pre-commitment occupancy rate from its successful pre-leasing. The new 12,000 sq m shopping mall will be anchored by Legend Cinema, the largest chain of cinemas in Cambodia, alongside other popular international brands such as Starbucks, The Pizza Company, Koi, KFC, Levi's and Dr. Professional Clinic.

The growing number of residential developments allows retailers to tap into this growing residential community.

The on-going infrastructure improvements and construction projects across the city is an attractive prospect for retailers, however, the worsening traffic condition is becoming a deterrent to the local populace.

FIGURE 7

FUTURE SUPPLY OF RETAIL SPACE BY YEAR AND GRADE (2019F - POST-2020F)



Source: Knight Frank Research

FURI TIME SQURE MALL, SIHANOUKVILLE

Outlook:

The on-going construction and residential development has presented retailers with an opportunity to tap into the growing community in Sihanoukville. With the increasing congestion and worsening traffic condition in the city centre, many retailers will be willing to take up space in shopping malls as opposed to the current traditional retail format, hence directly benefitting purpose-built shopping malls.

The fact that average retail rents have surpassed Phnom Penh suggests that retailers anticipate demand from consumers with a higher spending power than in the capital, particularly from Chinese expatriates.

However, the resident population of Sihanoukville remains small and tourist arrivals alone will not be sufficient to sustain the amount of retail space expected to enter the market over the coming years.

INDUSTRIAL SECTOR

Strong diplomatic relations between Cambodia and China has directly benefitted Sihanoukville's industrial development. Sihanoukville is emerging as Cambodia's leading industrial hub as Chinese investors envisioned it to be likened with the city of Shenzhen in China.

To promote the industrial sector, the government of Cambodia has committed to infrastructure improvement over the long term period which includes the expansion of the existing deep seaport operated by the Sihanoukville Autonomous Port (SAP), in addition to a licence permitted for a deep sea port witin Steung Hav Special Economic Zone and the Phnom Penh – Sihanoukville Expressway.

Currently, the deep sea port acts as the main industrial driver in Sihanoukville as it is the only operational deep sea port in Cambodia, acting as the main logistics hub serving the nation. Industrial activities in Sihanoukville include textiles, garments, footwear, beer, hardware, machinery and construction material.

Apart from being an import and export hub, the discovery of the first off-shore oil reserves off the coast of Sihanoukville will further drive the local and national economy.

One of the main recipients of foreign investment in the industrial sector has been Special Economic Zones (SEZ). In a bid to attract additional foreign investments and to remain regionally competitive with neighbouring countries, a number of incentives are provided to investors in SEZ's, one of the main being tax incentives and ready infrastructure.

Phase 1 of Sihanoukville SEZ has been been the most successful in Cambodia. As the best performing SEZ in the Kingdom, it comprises 161 registered companies with an aggregate investment capital of about US$918 million, creating circa 25,000 job opportunities.

The success rates of a SEZ's remains largely dependent on the effective management of the particular SEZ. Despite the completion of the port expansion and ability to handle increased volumes of container traffic, Sihanoukville Port Special Economic Zone (SPSEZ), being nearest to the port remains mostly vacant.

Land prices in Sihanoukville's prime locations have seen a dramatic rise of more than 150% over the past 18 months. Rentals followed suit and have surpassed land rents in Phnom Penh causing many individual detached factories located outside of SEZ's to sell out and relocate outwards to pave the way for redevelopment.

Current asking rents for existing factories within the SEZ's in Sihanoukville remained flat at US$2.10 per sq m per month whilst asking prices for land on long leases (20 years - 50 years) ranged between US$30 per sq m per month to US$65 per sq m per month over the land area, paid as a one of premium.

FIGURE 8

LONG TERM LEASE PRICES FOR SSEZ, SAP AND STUENG HAV SEZ H1 2019

	Lease Tenure & Price Per sq M Over The Land	
Developments	Period	Price
Sihanoukville Special Economic Zone (SSEZ)	20 years-50 years	US$30-US$50
Sihanoukville Autonomous Port (SAP)	10 Years-50 Years	US$55-US$65
Stueng Hav Special Economc Zone	N/A	N/A

Outlook:

Strategically located in the central region of Indochina, Sihanoukville has seen increasing industrial activity and investment. To achieve its long term goal, the Government of Cambodia released a 10-year Industrial Development Policy (IDP) 2015 – 2025, outlining its strategic framework, policy measures, expansion and modernisation of SMEs, improving legal environment, human resources and land use policy.

The commencement of oil extraction by Singapore-based oil and gas company, KrisEnergy Ltd, will give an additional boost and support to Cambodia's current economic trajectory. Expected to fuel economic growth, oil exploration and production in a country typically increases the nation's income, accelerates job growth and lowers the cost of manufacturing leading to an increase in economic activities, disposable household incomes and consumer spending. With a positive correlation, the real estate sector will be moving in tandem, specifically the industrial sector. Thus, the commencement of this extraction is expected to be the main driver of Sihanoukville's industrial sector over the medium and long term.

SIEM REAP H1 2019 REVIEW

OVERVIEW

In line with our H1 2018 Siem Reap Review, we are seeing increasing investment activity in the province; several new residential projects were launched, a holiday home investment offering, Angkor Grace Resort, was announced, the Song Saa Reserve, an exciting new project by the developers of Song Saa Private Island, was launched and two new retail formats opened their doors.

Both the Heritage Walk and Makro opened during H2 2018 and H1 2019, offering two alternative retail formats to the existing duty free outlets and retail centres. Heritage Walk is Siem Reap's largest purpose built retail mall, whilst Makro offers the same wholesale format as its Phnom Pent outlet.

Additionally, ANM Premium Office, part of the King's Road Angkor's extension, was officially opened signifying fledgling demand for more corporate style office space rather than the traditional shop office stock that currently dominates existing supply.

Whilst investment in Siem Reap's real estate and construction sector is becoming more diverse, the hospitality and tourism industry is, and will remain, the main driver of development activity in the province.

The hotel sector will continue to become more competitive with the opening of Ibis Styles in H2 2018, the re-opening of the refurbished FCC Angkor managed by Avani Hotels & Resorts, a Minor Hotels brand, Banyan Tree set to enter the market under their Angsana brand, Hilton Hotels indicating that they are looking for local development partners and the on-going renovation works at the Raffles D'Angkor, which is due to reopen in October 2019.

The Angkor Grace resort is a new type of real estate investment offering in Siem Reap. Comprising 312 units of two bedrooms, the properties are being sold on a 10 year sale and leaseback scheme with a guaranteed net return of 8% per annum and a complimentary 14-day stay within the resort for the owners. However, scheduled completion as been pushed back by one year to 2021.

Although growth in international tourist arrivals moderated during 2018, it continued on its upward trajectory increasing by 5.4% Y-o-Y to 2,590,895 arrivals.

To cater to the growing number of tourist arrivals, a number of small scale water parks have been developed to expand the tourism offering in Siem Reap, however, they are mainly targeted at the domestic market. There are also several other theme park / activity based attraction in the pipeline, including the proposed Wild Life Park & Aquarium – being funded by a consortium of Cambodian, Japanese and American investors.

In contrast to the continued growth in the tourism sector, the recently published Population Census 2019 showed that the population growth in the province moderated between 2008 and 2019 as compared with the growth recorded between 1998 and 2008. Siem Reap Province's population was recorded at just over 1 million, equating to a compounded annual growth of 1.1% per annum between 2008 and 2019, below the national average of 1.2% and significantly lower than Phnom Penh.

Thus, whilst demand for hotel accommodation, tourist activities and attractions will continue to grow, developers looking at other real estate sectors need to have a sound understanding of the market fundamentals of Siem Reap.

FIGURE 1
POPULATION GROWTH

Locality	Population (000's)			CAGR	CAGR
	1998	2008	2019	(1998 – 2008)	(2008 – 2019)
Cambodia	11,438	13,396	15,288	1.6%	1.2%
Siem Reap	696	896	1,007	2.6%	1.1%
Phnom Penh	1,000	1,328	2,129	2.9%	4.4%
Sihanoukville	156	221	303	3.5%	2.9%

Source: National Institute of Statistics Ministry of Planning / Knight Frank Research

HOTEL SECTOR

The accommodation offering in Siem Reap is still dominated by small scale boutique hotels, of which the supply continues to grow with new hotels opening and closing on a near monthly basis, and is the most competitive segment in Siem Reap.

However, Knight Frank only monitors hotels with a room inventory of 50 keys and above, except those hotels in the Luxury & Upper Upscale segment such as Amansara and Phum Baitang, both of which have room inventories below 50.

As at the end of H1 2019, the existing supply of hotel rooms in Siem Reap was recorded at 11,848 keys across 85 hotels, equating to an average room inventory of 139 keys per hotel. This represented a Y-o-Y increase of 6.5% as compared with the same period in 2018.

The majority (63%) of the existing supply falls within the Upscale & Upper Midscale classification, followed by Luxury & Upper Midscale (23%) and Midscale & Economy (14%).

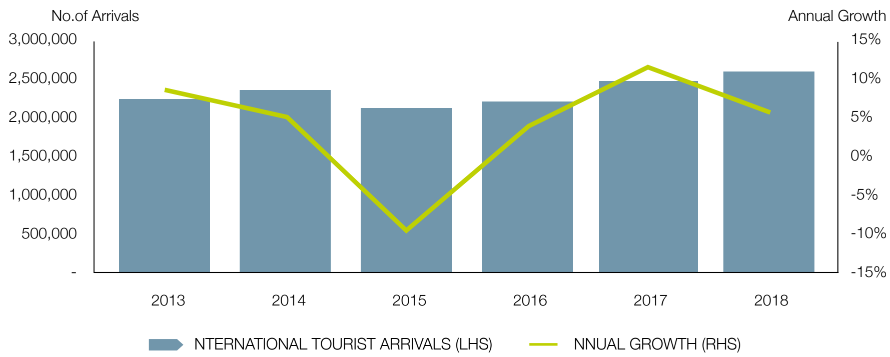
The most notable opening between H1 2018 and H1 2019 was the 112-room Ibis Styles – Cambodia's first internationally branded Midscale & Economy hotel, further underlining the evolution of the sector in Siem Reap and Cambodia.

Additionally, The FCC Angkor was refurbished and reopened under the management of Avani Hotels & Resorts, which is a brand under Minor International – a Bangkok-based multinational company with a global portfolio of 520 hotels.

The future supply pipeline of hotels with 50 rooms and above remains limited at 740 keys across 4 hotels. However, there are many boutique hotels also under construction and nearing completion.

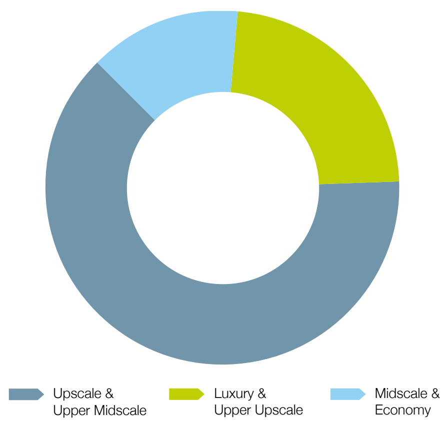
The future supply comprises mainly Luxury & Upper Upscale (58%) followed by Upscale & Upper Midscale (42%), with not Midscale & Economy hotels in the development pipeline.

FIGURE 2
INTERNATIONAL TOURIST ARRIVALS TO SIEM REAP PROVINCE



Source: Ministry of Tourism / Knight Frank Research

FIGURE 3
EXISTING HOTEL SUPPLY BY CLASSIFICATION



Source: Knight Frank Research

Outlook:

Of all the tourism destinations in Cambodia, Siem Reap is by far the most developed but also the most competitive. There is a plethora of accommodation offerings to choose from with good quality, recently completed hotels offering rooms from US$40 per night, which places significant pressure on profitability as operators vie for guests in a bid to maintain occupancy rates.

Whilst tourism arrivals to the province increased during 2018, growth moderated to 5.4% Y-o-Y. Furthermore, the number of Chinese arrivals continues to grow whilst arrivals from other countries are declining. Typically, Chinese tourists arrive as part of a group tour, with predetermined accommodation, tours, shopping stops and dining venues already arranged so only a small segment of the local economy benefits.

The above notwithstanding, Angkor Wat will continue to be one of the world's leading tourist destinations and Siem Reap will continue to be a 'bucket list' destination for many travellers. We will see a diversification of accommodation offerings, such as The Beige, for hotels to have a competitive edge and hopefully the development of more tourism attractions such as water parks, theme parks and the eagerly awaited aquarium and more.

RETAIL SECTOR

Purpose-built shopping malls in Siem Reap began construction some years ago. However, the shopping malls were small-scale projects; community malls below 10,000 sq m.

Currently, the retail landscape in Siem Reap is dominated by traditional shophouses, small-scale convenience stores and local markets, demand for which is mainly driven by tourism activities.

However, in recent years, Siem Reap's retail landscape has been undergoing a transformation with a variety of international and local retailers entering the market and offering modern retail formats.

Completed during H2 2018, The Heritage Walk is the first larger-scale purpose-built mall in Siem Reap, offering a variety of food & beverage, fashion and entertainment outlets. It comprises an approximate gross floor area and net lettable area of 40,000 sq m and 12,000 sq m, respectively.

Making up 42% of the total NLA, Heritage Walk secured various multinational food & beverage tenants, notably, Starbucks, KOI Thé Cambodia, Amazon, The Dairy Queen, Pizza Company, Domino Pizza, Swensen, Tous Les Jours, De Tummour Cambodia, AKA Cambodia, The Hashi, Bar B-Q Plaza and Green Suki Soup. Additional stores scheduled to open by H2 2019 and H1 2020 are Lucky Supermarket, Guardian, a skybar, a food court and a game zone.

The mall inaugurated with a 75% occupancy rate with most of the vacant spaces compiled on its upper floors, the 3rd and 4th floors. It comprises a good sectorial mix with Legend Cinema as their anchor tenant, supported by fashion, lifestyle, health & beauty, telecommunication and supermarket, catering to all demographics in Siem Reap.

After opening their doors in Phnom Penh two years ago, Makro Thailand, a cash & carry retailer, officially inaugurated their second branch in Siem Reap. Sited on the outskirts of Siem Reap town, in Prasat Bakong District, it is constructed over a 5 hectare parcel of land, providing a gross floor area of 13,560 square metres with a net lettable area of 9,800 sq m. However, Makro is wholly owner-occupied.

As a cash & carry wholesaler, Makro not only attracts small businesses, vendors, hotel and restaurants in Siem Reap but also the local resident population.

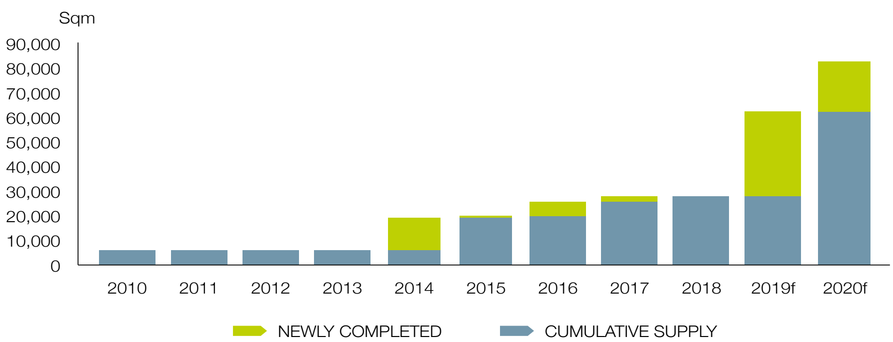
The opening of Makro and The Heritage Walk contributed 21,789 sq m of net lettable area to the retail supply driving it up to 49,914 sq m, equating to a Y-o-Y growth of 77% from the existing supply.

Still at its infancy stage, Siem Reap's prime retail space comprises only 22,089 sq m of net lettable area, from T Galleria, Angkor Duty Free and The Heritage Walk.

Another proposed retail project, Koulen Shopping Mall, offering 20,580 sq m net letttable area of retail space (over 34,300 gross floor area) is anticipated to officially open its doors by year 2020. The completion of this shopping mall will drive the cumulative supply up to 70,494 sq m of net lettable area.

FIGURE 4

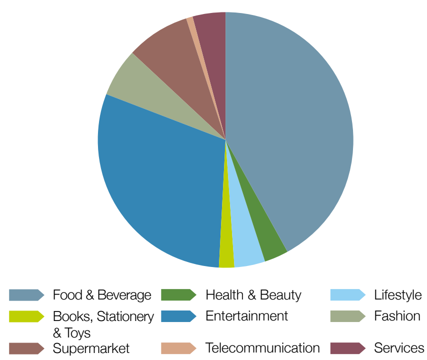
CUMULATIVE SUPPLY OF RETAIL SPACE IN SIEM REAP



Source: Knight Frank Research

FIGURE 5

TENANT MIX WITHIN HERITAGE WALK



Source: Knight Frank Research

Outlook:

One of the key drivers for Siem Reap's retail sector is the strong and stable economic growth in the Kingdom as a whole, contributing an improvement to the income bracket, along with a rise in disposable income. Also underpinned by the tourism and hospitality sector, and as the retail sector progressively moves away from traditional formats, demand for new and modern outlets will be increasingly sought-after.

The completion and success of The Heritage Walk in attracting many international food & beverage retailers has shown the need for additional modern retail formats as Siem Reap could potentially be a province for not only its heritage visitation, but also a shopping destination.

RESIDENTIAL SECTOR

Historically, Siem Reap has not been on the radar residential developers, hence growth a the residential market remained stunted. The improvement of infrastructure, especially National Road 6, has encouraged more domestic tourists travelling to Siem Reap by road and gradually kick-started the residential market.

Traditionally a tourist hub with limited investment activity, to-date there are no purpose-built condominiums.

Individual landed houses, detached villas, shop houses, flat houses, low-rise and low-density apartment blocks have dominated supply.

Borey Tourism City, developed by OCIC, is one of the largest existing projects covering a land area of more than 60 hectares and comprising single villas, twin villas and flat houses as well as leisure facilities.

The project has proved popular with a 100% sell out rate for their first and second phases. Subsequent phases thereafter have also achieved a very high take-up rate.

However, the market is price sensitive, illustrated by the Les Bijoux D'Angkor project. Initially announced in 2016, comprising 84 units of low-rise apartments within a gated & guarded community, the project is currently on hold.

Upon completion of Borey Angkor Palace, the same developer launched and constructed Borey The Premier Angkor Palace. Sprawling over a land area of approximately 13 hectares, comprising 815 units of terraced, semi-detached and detached villas, selling prices range from US$49,900 to US$333,200 per house.

To-date, the first phase of this new development is completed and provides various options of house type.

As at H1 2019, a new project was launched in Prasat Bakong District by Urban Living Solution, a Phnom Penh-based developer with an existing track record including Urban Loft and the on-going Urban Village project. Bakong Village is a low-density development comprising 105 units of shop houses and 245 units of 3-storey walk-up apartments together with a school, market and parking spaces.

Designed by AERNE Architects & Associates (AAA), it follows the concept of a gated, guarded and close-knit community living. Prices start from US$61,000 per apartment unit.

Other notable launches identified during the first half of 2019 were Angkor Grace and Vnom Empire, both progressively under construction offering various options of houses, contributing 312 units and 27 units, respectively.

Source: Knight Frank Research

Outlook:

Developments in Siem Reap have generally only focused on the tourism and hospitality sector. Residential developments, especially landed housing, locally referred to as Borey, have really only started to take off during the past two years. Despite infrastructure improvements and increasing economic activity, demand for residential investment in Siem Reap is still limited to wealthy Cambodians purchasing a second holiday home in Siem Reap.

To-date, there are no launched high-rise residential projects due to the height restrictions within the Apsara Zone.

Despite the increase of development activity and supply, rentals for residential accommodation remained unchanged and are significantly below Phnom Penh and now Sihanoukville.

However, land prices in the city centre are high due to the high commercial value driven by the tourism industry. Therefore, we anticipate future launches of housing developments to be located on the outskirts of the city.

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