Phnom Penh *Siem Reap* *Sihanoukville*

Cambodia Real Estate

knightfrank.com/research

Highlights - 1st half 2020

ECONOMIC SNAPSHOT

Cambodia's GDP growth is expected to decline sharply during 2020 but forecast to bounce back in 2021

At the beginning of 2020, no one could have predicted the turn of events that unfolded during the first half of 2020. According to the World Health Organisation (WHO), it was first made aware of the Covid-19 outbreak in Wuhan, China on 31 December 2019 and issued its first Disease Outbreak News report on 5 January 2020.

Since that announcement, the number of Covid-19 cases globally reached a staggering 10.2 million as at the end of June 2020 and was declared a global pandemic by WHO on 11 March.

In response to the outbreak, countries around the world went into various levels of lockdown bringing the global economy to a virtual halt.

This had a significant impact on Cambodia's economic performance during H1 2020; according to the World Bank, this was largely felt through three key channels: tourism, exports and foreign direct investment.

Cambodia has strong economic linkages with Countries that have been severely impacted by Covid-19 (figure 1) which has decimated demand for garment exports to the US and the EU and brought tourism to a standstill.

However, in contrast to developed countries, Cambodia's economy is forecast to bounce back in 2021 (figure 2), with GDP growth projections from the World Bank, Asian Development Bank and International Monetary Fund ranging between 5.7% to 8.5% for 2021.

This strong economic recovery will be underpinned by the fiscal and monetary responses implemented by the Cambodian Government, namely: 1) scaling up of existing social protection schemes through cash transfers to poor and vulnerable households, 2) tax relief for the tourism and manufacturing sectors, 3) retraining programmes for unemployed workforce , 4) wage subsidies for suspended workers, 5) property ownership transfer tax exemption on properties valued below US$70,000, 6) capital injection for the Rural Development and Agriculture Bank, 7) establishment of a new SME bank, 8) improving ease of doing business.

The monetary policies introduced by the central bank included a reduction in banks' reserve requirement, postponing the implementation of the Capital Conservation Buffer, cutting interest rates on negotiable certificates of deposits and reducing the Liquidity Coverage Ratio.

Figure 1: Top 5 markets for exports, tourists & FDI origin

Exports		Tourism		FDI Inflows	
US	26.80%	China	32.60%	China	40.00%
EU	25.00%	Vietnam	12.90%	Hong Kong, PRC SAR	10.90%
Japan	7.70%	Lao PDR	6.90%	Korea, Rep.	7.80%
Canada	6.20%	Thailand	6.20%	Singapore	7.10%
UK	6.10%	Korea, Rep.	4.90%	Japan	6.20%
ROW	38.20%	ROW	36.50%	ROW	28.00%

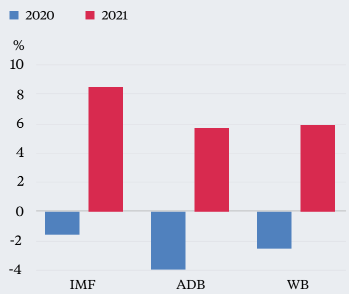
Source: World Bank

ROSS WHEBLE
Country Head

"in contrast to developed countries, Cambodia's economy is forecast to bounce back in 2021 (figure 2), with GDP growth projections from the World Bank, Asian Development Bank and International Monetary Fund ranging between 5.7% to 8.5% for 2021."

Whilst the short term outlook remains unclear, with the full effects of Covid-19 yet to be felt in the global and local economy, the medium term outlook for Cambodia remains positive, supported by Cambodia's strategic location within ASEAN and Southeast Asia, its open door policy on foreign investment and growing domestic consumption.

Figure 2: 2020 GDP Growth Forecasts



Source: International Monetary Fund, Asian Development Bank, World Bank

PHNOM PENH OFFICE SECTOR

Key findings

As at H1 2020, Phnom Penh's aggregate supply of office space stood at 588,710 sq m of net lettable area (NLA), a y-o-y increase of 27% from H1 2019.

The first half of 2020 alone saw the completion of 10 office buildings across Grade B and C, contributing a total NLA of 71,666 sq m for both centrally-owned and strata-title offices.

Conversely to the global office trend, Phnom Penh's office sector appeared shielded from the full adverse effects of the Covid-19 pandemic as witnessed in other major cities.

Although leasing activities reduced with weakened occupier sentiment, rentals for Phnom Penh's centrally-owned offices remained resilient and stable across all grades, with no mass foreclosures or rent reliefs evident whilst average occupancy rates recessed to 77% largely due to the incoming office supply.

With the increasing number of office completions, it is anticipated that owners of strata-title offices will likely be more flexible, especially in terms of rental rates and minimum tenure to secure a tenant for their unit, thus creating a more competitive landscape against landlords of centrally retained offices.

The Helix Office, Phnom Penh

Average occupancy rate for both centrally-owned and strata-title offices across all grades declined to 77%, largely due to the unabated supply of new office. Surprisingly, there was a minimal impact from the Covid-19 pandemic despite severely impacting the global financial and real estate markets.

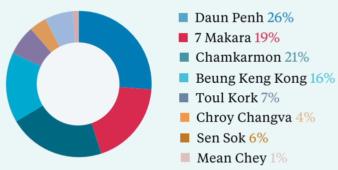
Supply and Demand

The cumulative supply of office space stood at 588,710 sq m of NLA following the completion of 10 office buildings during the first half of 2020, eight of which are centrally-owned buildings and two strata-title buildings.

The cumulative supply of office space increased by 71,666 sq m to 588,710 sq m of NLA, an increase of 13.8% since the end of 2019 and a y-o-y increase of 27% from 2019. The supply is expected to more than double over next two years with an additional 211,372 sq m NLA of centrally-owned offices and 447,798 sq m NLA of strata-title offices, assuming all projects complete as scheduled.

Of the new stock, 55,276 sq m NLA were of Grade B offices whilst the remaining 16,390 sq m were Grade C offices. Notable Grade B entries were TK Central (14,366 sq m), The Helix Office (2,000 sq m) and The Legacy Tower (14,742 sq m). Other additions were AMASS Central Tower (7,511 sq m), The Point (9,200 sq m) and KVBC Business Centre (5,357 sq m). TK Central (Toul Kork) and The Helix Office (7 Makara) are both centrally-owned whilst The Legacy Tower and KVBC Business Centre are strata-title and located in Chroy Changva.

Figure 3: Existing supply by District



Source: Knight Frank Research

Four Grade C offices entered the supply during H1 2020 namely Rise Commercial (2,100 sq m), OSK Building (7,000 sq m), Royal K Plaza (7,950 sq m) and The Link Office III (1,440 sq m), all of which are centrally-owned. There was no new stock for Grade A office completed during this period.

The continuous additions further reinforced Grade B's domination with 51% of the overall supply, followed by Grade C with 40% and Grade A with 9%.

Two strata titled office buildings completed, namely The Legacy and KVBC Business Centre, contributing an NLA of 20,099 sq m whilst centrally owned office building contributed 51,567 sq m of NLA.

An additional 124,997 sq m NLA of office space is expected to come online by the end of 2020.

By the end of 2020, most of the supply coming online will be strata-title offices comprising 87,689 sq m NLA whilst the remaining 337,308 sq m will be centrally-retained offices, all of which are Grade A and B.

Taking into account the 659,170 sq m NLA in the pipeline for future completion, the cumulative office supply will snowball to 1,247,880 sq m post 2020. The current split of centrally-owned and strata-title offices was 83% and 17%, respectively, however this is set to equalise post 2022, once all monitored projects complete as scheduled. The ratio of centrally-owned and strata-title offices, upon completion of all monitored projects will be 56% and 44%, respectively. 89% of the future incoming supply is Grade A whilst the remaining 11% is Grade B.

With the sizeable incoming supply, the office market is anticipated to self-correct as it finds its equilibrium in terms of demand and rental.

The wise, city centre location remained the most densely populated location with offices, accounting for 89% of the overall stock whilst the remaining 11% is in suburban. Distribution within the city centre comprised Daun Penh (26%), Chamkarmon (21%), 7 Makara (19%), Boeung Keng Kang (16%) and Toul Kork (7%).

Chamkarmon to overtake Daun Penh with majority office concentration in the future.

Although the CBD is located in Daun Penh, Chamkarmon is set to replace its dominant spot post 2022, upon completion of all monitored projects as scheduled, comprising 26% of the overall office location distribution.

The existing geographic office distribution of suburban comprised Chroy Changva (4%), Sen Sok (6%) and Mean Chey (1%).

The only new launch noted during the first half of 2020 was Central Capital Tower, which is a Grade B strata-title office, contributing about 24,800 sq m of NLA to our monitored basket.

Occupancy rates of centrally-owned offices continued to face downward pressure whilst strata-title offices recorded an uptick.

Centrally-owned offices recorded an average occupancy rate of 80.8%, a 5.3 percentage points drop whilst strata-title offices recorded an average occupancy rate of 59.3%, a 5.4 percentage points increase, since H2 2019.

The unprecedented Covid-19 pandemic severely hampered leasing activity during the first half of 2020. The pandemic, which caused lockdowns and restricted movements globally has disrupted the global economy leaving many corporates no choice but to reduce overheads to alleviate cash flow difficulties. Expansion and relocation plans of corporates were generally placed on hold until the situation improves.

However, unlike the global office market, where compassionate reliefs and tenants foreclosures were widespread, Phnom Penh's office sector appeared isolated from the full brunt of this pandemic other than reduced leasing activities. The above notwithstanding, the office sector outlook over the short to medium term is still generally one of oversupply. Average occupancy rates for both centrally-owned and strata title offices was recorded at 77%, a decline of 4.2 percentage points since the end of 2019. Grade A and C centrally retained offices commanded an occupancy rate of 80%, whilst Grade B declined to 75%, largely due to the sizeable new office supply and weakened absorption rate.

Owners of strata-title offices expected to increase flexibility to entice tenants.

Most MNCs halted expansion and relocation plans in H1 2020 leading to a standstill in transactional activity. Furthermore, with a sizable development pipeline, owners of strata-title offices will be pressured to increase flexibility with rental and tenure, in order to compete with centrally-owned offices.

Prices and Rental

Despite the oversupply situation which is further exacerbated by the unprecedented Covid-19 crisis, rentals for offices remained resilient and relatively flat since the end of 2019. Grade A, B and C offices command rentals ranging between US$30 to US$39 per sq m per month, US$21 to US$23 and US$14 to US$15, respectively (exclusive of service charges and tax).

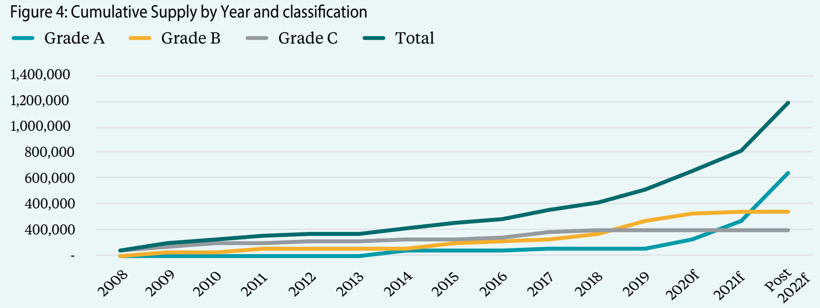
The newly completed centrally-retained Grade B and C offices are available for rent ranging between US$16 to US$24 per sq m per month (exclusive of service charges and tax) whilst the strata-title offices are available for sale starting from US$2,500 per sq m of the NLA.

Office Sector Outlook

Co-working space and serviced offices were the main components impacted by the pandemic. Challenged to stay open, some operators temporarily closed as many people tried to avoid group meetings and to practice social distancing. However, operators are still optimistic on the future outlook of the co-working and serviced office market once the pandemic improves within the region.

Despite Cambodia having successfully avoided any major fallout from the COVID-19 outbreak – no evident lockdowns and cases remained low, its economy was still impacted by the economic fallout its neighbours and the region. This has resulted in firms holding off decision making and re-strategising their corporate real estate needs. This softer sentiment will put pressure on rents, further compounding the impending supply hitting the market in the coming years.

Figure 4: Cumulative Supply by Year and classification



Source: Knight Frank Research

Key findings

The cumulative retail space was recorded at 351,046 sq m NLA as at H1 2020, a y-o-y increase of 4% over the same period of 2019.

Three new community malls officially opened their doors contributing a total 11,792 sq m NLA to the overall retail supply; namely Samai Square, TL Sky Mall and Khalandale Mall.

During H2 2020, an additional 107,946 sq m NLA will enter the supply stream of retail space, spread across seven projects.

To contain the spread of the Covid-19 outbreak, the Cambodian government has relentlessly advised the public against unnecessary travel and to apply social distancing measures. Mall operators stepped up on hygiene measures which includes temperature screening and hand sanitation at entrances.

Non-essential retailers in prime shopping malls were instructed by operators to temporarily reduce operating hours whilst some food & beverage retailers have taken their own initiative to cease operation or observe social distancing measures by serving only take-away / delivery services.

Khalandale Mall, Phnom Penh

PHNOM PENH RETAIL SECTOR

Following the announcement of Covid-19 pandemic by World Health Organisation (WHO) as a "Global Pandemic" , consumer spending and business sentiment weakened significantly. Many workers chose to return and stay home until the situation improved, leading to a significant footfall decline during March and April of 2020.

Supply and Demand

Supply in Phnom Penh increased by 11,792 sq metres NLA. The cumulative supply space stood at 351,046 sq m NLA as at H1 2020.

Three additional community malls were opened during the first half of 2020 namely; Samai Square, TL Sky Mall and Khalandale Mall.

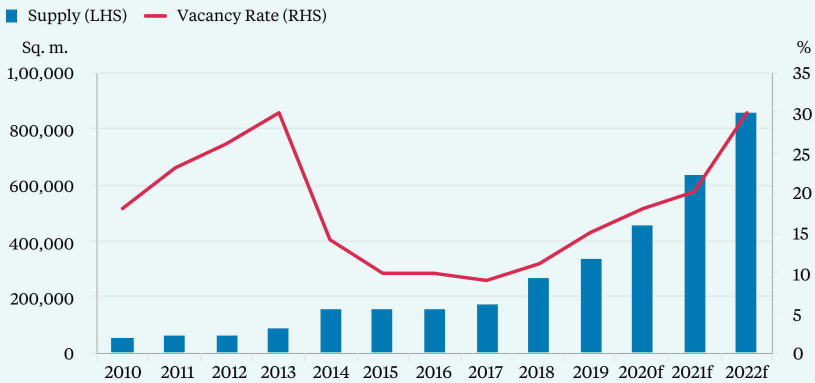
Samai Square opened during the first quarter of 2020 and contributed 1,650 sq m to the monitored retail supply. This new community mall provides additional diversified venues to the Toul Kork district populace. Khalandale Mall opened during the second quarter of 2020, contributing 7,800 sq m NLA to the overall supply. Khalandale Mall is directly opposite the existing Eden Garden community mall, providing additional diversified venues in Daun Penh.

TL Sky Mall is located in Porsenchey District and is strategically surrounded by a number of well populated Boreys. Extending to a NLA of 2,342 sq m, this community mall is the first in the district to offer a modern retail format and comprises food & beverage retail, hypermarket and a cinema under the operator of Prime Cineplex.

During H2 2020, an additional 107,946 sq m of NLA of retail supply spread over eight projects is scheduled to come online in Phnom Penh, if all monitored projects launched or under construction are completed on schedule. Between 2021 and 2022, the cumulative supply will double with an additional 370,000 sq m NLA coming online.

Although the current ratio of retail space between the city centre and suburban stood at 65:35, this distribution is set to transform as 68% of the new supply in the pipeline will be focused in suburban districts whilst the remaining 32% is in the city centre.

Figure 5: Phnom Penh Supply and Demand of Retail Space



Source: Knight Frank Research

Sen Sok and 7 Makara districts still comprise the most retail space in Phnom Penh with 26% and 24% of the overall share, respectively. This is followed by Chamkarmon and Daun Penh representing 21% and 15%, respectively. The remaining 14% of retail space is spread over Boeung Keng Kang, Toul Kork, Mean Chey, Porsenchey and Chbar Ampov.

The retail trading environment globally has transformed subsequent to the Covid-19 pandemic, Cambodia included. Since the announcement by the WHO, the Cambodian government has taken a number of measures necessary to curb the spread of this outbreak. Non-essential businesses involving close physical contact such as cinemas, KTVs, pubs and bars were ordered to shut until further notice.

As the outbreak worsened, governments of other countries began implementing “movement control” or “lockdown” or “circuit breaker” measures to curb the spread. These measures restrict all citizens and anyone residing in those countries from non-essential travel for a fixed span of timeframe. Although the retail footfall reduced enormously during the months of March and April, the retail sector in Phnom Penh was not as severely impacted compared with its regional neighbours as Cambodia’s government restriction imposed were minimal.

The overall occupancy rate slipped to 85%, a 0.3 percentage points drop as compared with occupancy rates noted during the end of 2019, underpinned by strong F&B and entertainment retailer take up rates noted in Samai Square and Khalandale Mall. TL Sky Mall however is located in the suburban area and recorded an occupancy rate of 66% during its first quarter of opening.

Prices and Rental

Subsequent to the peak of the outbreak, rentals for prime grade shopping malls registered a slight decline, ranging between US$27.00 to US$30.00 per sq m of NLA (excluding service charges and tax). However, rentals for secondary grade malls remained unchanged at US$21.00 to US$29.00 per sq m of NLA.

The Covid-19 outbreak caused retail footfall to suffer as the majority of shoppers avoided crowded areas and stayed home to conform to the government and WHO’s social distancing advice. The situation was further exacerbated when travel restrictions were implemented globally which reduced tourist arrivals tremendously.

With leasing activity put on hold, it is anticipated that operators will be providing additional incentives to entice tenants to their shopping mall.

As a result of the pandemic and reduced footfall, relief assistance was also provided on a case-by-case basis by landlords to existing tenants.

Retail Sector Outlook

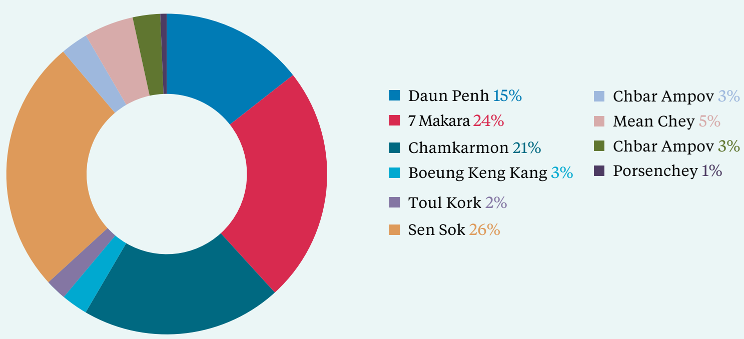
Despite continuity of operations, shopping malls were not operating at full capacity due to the government’s strict social distancing measures. Cinemas were shuttered whilst F&B retailers found not adhering to the government operation guidelines were ordered to close. Online retail appeared to be the silver lining from this pandemic as it became the preferred options, and many F&B consumers and fashion retailers began restructuring to strengthen their online presence.

Moving forward, shopping mall operators are expected to step up on hygiene measures and sanitation practice with mall entrances guarded for body temperature scan and hand sanitisation for incoming shoppers. Additionally, technological innovations with a focus on reducing contact between people will be a top priority.

The pandemic led to a ‘new norm’ for the retail sector. The typical shopping habits have transformed with visitations to shopping malls and hypermarkets being more direct and purposeful rather than window shopping. Also, at times of uncertainty, consumer spending will also moderate as consumers will be cautious especially on big ticket items, leading to lower business turnover. For non-essential items, retailers will inevitably be faced with consolidation and closures as they re-allocate resources and operations. To prevent major retail closures, landlords and shopping mall operators will be expected to work hand-in-hand with existing retail tenants to ensure sustainability and maintain occupancy levels.

With the supply expected to double up by 2022, shopping mall operators will be required to constantly adapt to the dynamic retail environment to remain competitive and to entice tenants.

Figure 6: Distribution of Existing Retail Space by District



Source: Knight Frank Research

Key findings

The global tourism industry was one of the hardest hit sectors following the outbreak of Covid-19. This led to a 64.6% year-on-year decline in tourist arrivals to Cambodia during the first half of 2020.

Average hotel occupancy rates and ADRs during H1 2020 plummeted by 33% and 25% respectively, over H1 2019.

The existing supply of hotels in Phnom Penh increased to 11,727 keys despite the temporary and permanent closure of many establishments.

Until global travel restrictions are relaxed, the hospitality sector will remain challenging and we will continue to see operators shift focus to the growing domestic market.

To cushion the impact, the Government of Cambodia in collaboration with the National Bank of Cambodia launched a series of monetary and fiscal policies to assist tourism stakeholders including tax exemption and increased liquidity for affected businesses.

Lyve Inc Hotel, Phnom Penh

PHNOM PENH HOTEL SECTOR

Hospitality sector left exposed as tourism industry took a plunge in incoming passenger arrivals stemming from travel restrictions and lockdowns imposed by global governments to contain the Covid-19 global pandemic.

Supply

Three hotels namely Anik Palace Hotel, Poulo Wai Hotel & Apartment and Aurea Central Hotel, officially opened and contributed 392 keys to the overall Phnom Penh hotel supply during the first half of 2020.

As at H1 2020, the cumulative supply of hotel rooms in Phnom Penh rose to 11,727 keys, an increment of 392 keys over three new hotels; Anik Palace Hotel (129 keys), Aurea Central Hotel (98 keys) and Poulo Wai Hotel & Apartment (165 keys). Anik Palace Hotel is an Upscale & Upper Midscale hotel whilst the other two are within the Midscale & Economy segment.

In addition, Lumiere Hotel comprising 88 keys, an Upscale & Upper Midscale hotel in Daun Penh district was officially rebranded to Lyve Inc Hotel during Q2 2020.

Daun Penh remained the district with the highest concentration of hotels as it encompasses the CBD and the Phnom Penh riverside tourist belt. Daun Penh comprised 4,444 keys (38% of the overall market share) followed by Chamkarmon (22%), Boeung Keng Kang (11%), Chroy Changva (9%) and 7 Makara (8%). The remaining hotels are in Toul Kork, Mean Chey and Porsenchey districts.

Despite the new additions, the category distribution remained the same with Midscale & Economy (3-star) dominating the existing supply (50%). Luxury & Upper Upscale (5-star) and Upscale & Upper Midscale (4-star) hotels had equal market share at 25%.

Two hotels were added to our monitored future hotel pipeline during the first half of 2020; Hotel Nikko Phnom Penh (201 keys) and The Khom Hotel (130 keys), both of which are Upscale & Upper Midscale (4-star).

Hotel Nikko Phnom Penh is located in Chamkarmon District whilst The Khom Hotel, which is under the Autograph Collection of Marriott International is located in Daun Penh District. Both hotels are scheduled to complete and commence operation by 2022.

Figure 7 : Cumulative Hotel Supply by Year

Source: Knight Frank Research

Towards the end of 2020, four additional hotels are expected to open their doors if the projects complete as scheduled, contributing an additional 556 keys to the overall supply, including the much anticipated Hyatt Regency which has completed construction work and is slated to open by H2 2020.

Between 2021 and Post 2022, approximately 7,143 keys are expected to be added to the hotel supply, a large proportion of which is contributed by Naga World 3 in Chamkarmon district. If all monitored projects complete as scheduled, the cumulative supply of hotels in Phnom Penh will rise to 19,426 keys representing an increase of 66% over the existing supply.

Occupancy rate and average room rates

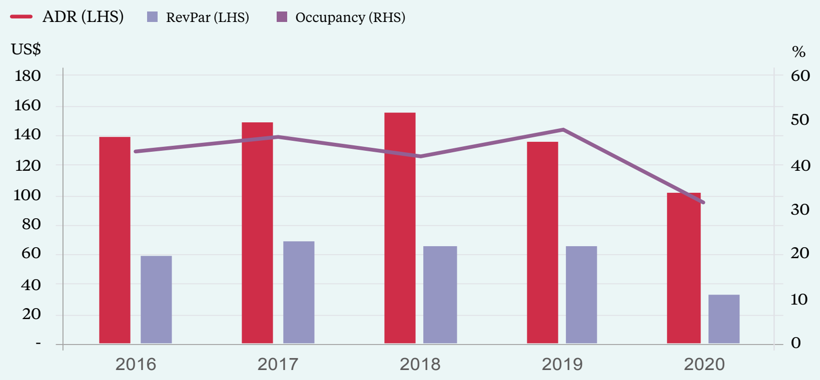
Visitor arrivals to Cambodia plunged 64.6% year-on-year during the first half of 2020 as countries around the world battled with the Covid-19 pandemic.

The severe disruption of the tourism sector, which stemmed from global travel restrictions imposed by global governments, has directly impacted the hospitality sector in Cambodia.

Average hotel occupancy rates and Average Daily Rates (ADR) during H1 2020 in Phnom Penh plummeted by 33% and 25%, respectively, over H1 2019. The year began with relatively healthy occupancy rates recorded during January and February ranging between 47% to 50%. As the outbreak worsened during March, and travel bans accelerated in regional countries, occupancy rates declined to 20% by June 2020.

Due to the low occupancy level, the Ministry of Tourism reported that approximately 324 hotels had requested for temporary suspension nationwide, at least until the situation improves. Between January and June 2020, the ADR for Phnom Penh across all classifications declined sharply, by 37% as hotels which continued operations either slashed their room rates or offered extended monthly stays at low rates.

Figure 9 : Average ADR, Revpar & Occupancy Rate for Phnom Penh Hotels



Source: Knight Frank Research/STR

Hotel sector outlook

Whilst quarantine measures are still in place, tourist arrivals will remain depressed and hoteliers will face decreasing RevPar over the short term

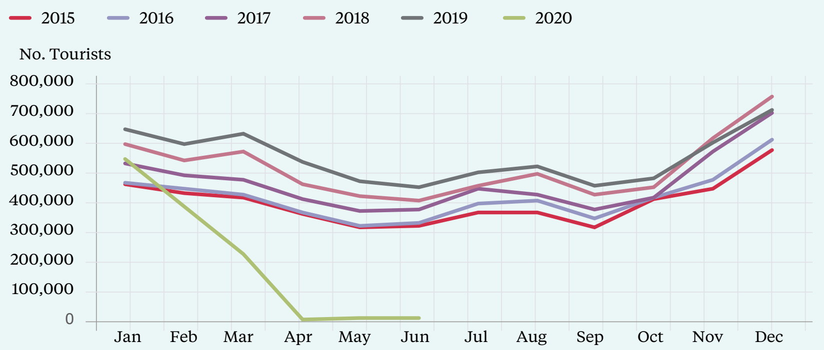
The international travel bans which are being implemented to varying degrees across the globe, coupled with fear of the highly contagious Covid-19 virus, will continue to hamper the performance of the hotel sector over the short term.

To cushion the impact and prevent a further closures, the government has worked hand-in-hand with the National Bank of Cambodia and launched a series of monetary and fiscal policies to assist tourism stakeholders including tax exemptions and increased liquidity for affected businesses/hoteliers.

Additionally, travel bans on incoming foreigners were lifted towards the end of H1 2020 and replaced with mandatory requirements such as health certificates, insurance and medical/quarantine deposits which became a barrier of entry for foreign tourists.

The Covid-19 global pandemic continued to bring much uncertainty and the recovery period of the hotel sector is unclear depending on the longevity of the outbreak or until a viable vaccine is established and global travel restrictions relaxed. The hospitality sector is likely to remain challenged and hoteliers are expected to shift focus to the growing domestic tourism market over the short term.

Figure 8: International Tourist Arrivals to Cambodia



Source: Tourism Statistics Department, Ministry of Tourism

Key findings

Two new serviced apartments namely Lyzones Tower and 85 SOHO Premium Serviced Residences, contributed 192 units to the cumulative serviced apartment supply in Phnom Penh.

Knight Frank's basket was updated with a number of newly identified serviced apartment taking the cumulative supply of serviced apartments in Phnom Penh to 6,577 units spread across 167 blocks.

Mid-tier serviced apartments dominated the existing supply with a slight uptick of the overall share to 57%, followed by High-end (23%) and Affordable (21%) units.

Travel restrictions implemented by governments to contain the Covid-19 global pandemic outbreak have limited accessibility of incoming foreigners and expatriates, thus causing downwards pressure on the serviced apartment sector occupancy rates as it contracted to 61%; a y-o-y decrease of 18 percentage points over the same period during 2019.

Lyzones Tower, Phnom Penh

PHNOM PENH SERVICED APARTMENT SECTOR

Average occupancy rate of serviced apartments contracted to 61%, a y-o-y decrease of 18 percentage points over the same period during 2019. Although advertised asking rates remained stable, landlords increased flexibility with tenancy terms and lengths of stay

Supply

Two new serviced apartments within the High-end and Mid-tier segments contributed 192 units to the overall supply during H1 2020.

In addition, Knight Frank's basket has been updated with four newly identified projects, taking the total existing serviced apartment supply to 6,577 units spread across 167 projects.

During the first half of 2020, the operator of Lumiere Residence, a High-end serviced apartment comprising 166 units in 7 Makara District, was replaced with a new operator and rebranded to Lyve Inc Hotel & Residence.

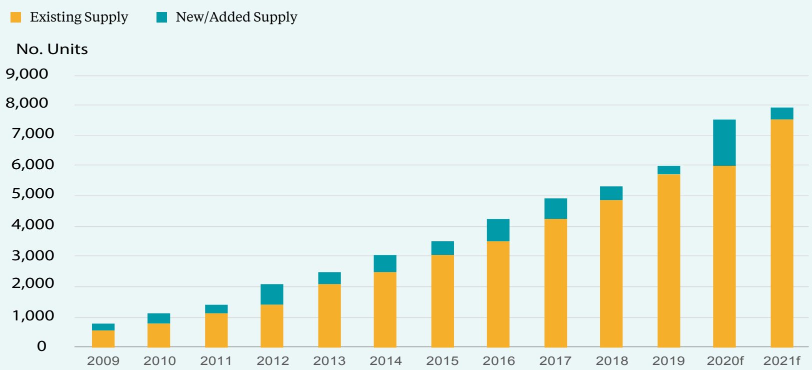
The newly completed High-end serviced apartment, Lyzones Tower, contributed 84 units to Boeung Keng Kang District.

Additional units were also added to the Mid-tier segment with the completion of 85 SOHO Premium Serviced Residences. Located within part of the Axis condominium development, this block contributed 108 units to Sen Sok district.

Despite the new entries spread across other districts, Boeung Keng Kang District still commanded the largest market share at 34% of the overall supply, followed by Chamkarmon (17%), Daun Penh (17%), Toul Kork (11%), 7 Makara (10%), Chroy Chongva (6%), Sen Sok (4%) and Mean Chey (1%).

Approximately 56% of the overall supply is categorised as Mid-tier whilst the remaining 23% is High-end and 21% is Affordable. The city centre continues to be the sought-after location for serviced apartments. Approximately 89% of the existing supply is located within city centre districts whilst 11% are located in suburban districts.

Figure 10: Cumulative Supply of Serviced Apartments (2009 - 2020f)



Source: Knight Frank Research

An additional 1,371 serviced apartments have been identified and will be added to the supply over the next two years, reflecting an increase of 21%, assuming all identified projects complete as scheduled.

Rental

Asking rentals for serviced apartments remained resilient despite the increased competition from condominiums and hotels.

The significant increase in the supply of new condominiums has intensified competition among serviced apartment operators. In addition, the lack of tourists due to Covid-19 and global travel restrictions has pressured hotel operators to offering long-term stay at heavily discounted rates.

Despite the increased competition, advertised asking rentals remained resilient with High-end rents averaging US$21 per sq m over the net lettable area, Mid-tier rents averaging US$13 per sq m and Affordable rents averaging US$7 per sq m. However, serviced apartment landlords and operators were more open to negotiation in terms of rentals and shorter tenancy duration. Other incentives offered were free months stay with yearly tenancy, free cleaning, free internet, free cable TV and so on.

Occupancy

The overall occupancy rate was impacted by the onset of Covid-19, contracting to 61%, a y-o-y decrease of 18 percentage points over the same period of 2019.

Demand for serviced apartments is mainly driven by tourists and expatriates. The bleak situation due to the Covid-19 pandemic forced governments around the world to impose travel restrictions and lockdowns to contain the spread of the outbreak.

The outbreak caused many expatriates in Cambodia to return to their countries of origin via repatriation flights and also prevented incoming foreign workers. This led to the average occupancy rate falling to 61% during the first half of 2020.

By segment, High-end apartments were impacted the most, with the average occupancy rate recorded at 42% whilst Mid-tier and Affordable units recorded occupancy rates of 68% and 74% respectively.

Location-wise, Chamkarmon, Boeung Keng Kang, Daun Penh and Toul Kork districts all recorded the highest occupancy rates averaging between 61% to 63% whilst 7 Makara, Chroy Changva and Sen Sok were slightly lower ranging between 51% to 58%.

Serviced Apartment Sector Outlook

The full impact of Covid-19 on the serviced apartment sector is largely unknown as it will depend on the scale of the outbreak and also government travel restrictions.

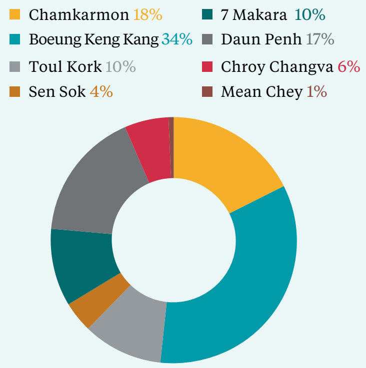
The increased supply of condominiums and serviced apartments, the repatriation of expatriates stemming from the Covid-19 pandemic and the entries of hotels in the city offering extended stay have all adversely impacted occupancy rates for serviced apartments.

Towards the end of the first half of 2020 the government lifted travel bans that were imposed on six countries and also relaxed entry requirements into the Kingdom. Despite the above actions, incoming tourist arrivals are expected to remain depressed which will negatively impact on demand for serviced apartments over the short term.

However, there are now some green shoots emerging, as businesses that temporarily closed begin to slowly re-open, enticing foreign business owners back to Cambodia, and office expansions of MNCs that were put on hold are becoming active again.

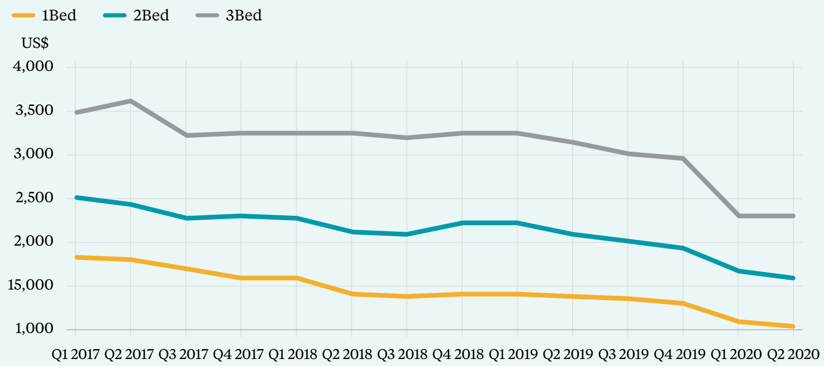
The short term outlook of the serviced apartment sector remains cautious. In general, rentals and occupancy rates will remain under pressure if the longevity of this outbreak is prolonged which could lead to acquisition opportunities.

Figure 11: Existing supply by District



Source: Knight Frank Research

Figure 12: Monthly asking rents for high-end units by Quarter



Source: Knight Frank Research

Key findings

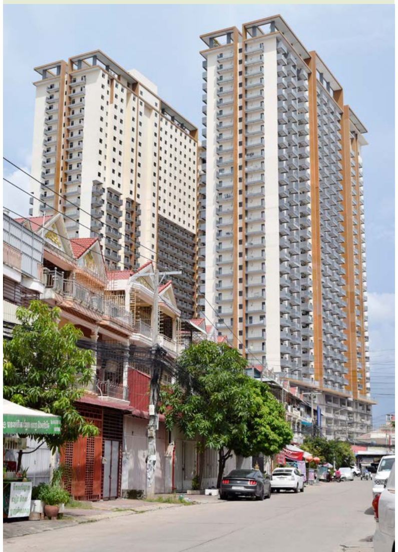
The cumulative supply of condominiums was recorded at 21,935 units across 77 condominium developments as at the end of H1 2020. There were six new project completions.

After reconfiguration of Knight Frank's condominium classification , the current ratio of High-end and Mid-tier units in the city stood at 65% and 35%, respectively.

Growing domestic demand for condominiums helped to off-set the declining demand from foreign investors subsequent to the Covid-19 outbreak.

Developers and market players remained unwavering during these testing times with 10 new off-plan condominium projects launched during the first half of the year

To cushion the impact of Covid-19 and stimulate investment activities, the Government of Cambodia exempted transfer taxes on property valued below US$70,000 until the end of 2020.



Sky Tree, Phnom Penh

PHNOM PENH CONDOMINIUM SECTOR

Although demand for condominiums weakened with the onset of the Covid-19 global pandemic, new launches and prices remained resilient and there was a noticeable increase in the number of domestic buyers

Supply and Demand

The first half of 2020 saw the completion of six condominiums (2,699 units) and 10 new off-plan launches (3,712 units).

Amidst the Covid-19 pandemic, six new condominiums were completed during the first half of the year, lifting the cumulative condominium supply in Phnom Penh up to 21,935 units (including the balance units within Star City which has been completed) spread across 77 projects; a y-o-y growth of 25% from H1 2019.

To reflect the overall increase in residential prices in Phnom Penh, Knight Frank's condominium classification has been reconfigured; the Affordable segment now comprises units priced up to US$1,000 per square metre of net saleable area (NLA), Mid-tier units are priced between US$1,001 to US$2,500 per square metre of NLA. Properties selling above US$2,500 per square metre of NLA are categorised as High-end.

The ratio of existing condominium supply now stood at 65:35 for Mid-tier and High-end, respectively. To-date, there are still no existing Affordable units.

The six completed Mid-tier condominiums were UK Condo (224 units), Highland Condominium (213 units), Mekong View Tower 6 (262 units), Paramount Residence (400 units), Sky Tree (268 units) and Axis Residence (432 units). Additionally, the remaining 800 units of the 1,600 units in Star City have also been completed this quarter.

Both Mekong View Tower 6 and Highland Condominium are located within the increasingly popular residential district, Chroy Changva.

UK Condo is within Toul Kork District and Sky Tree is within Russey Keo District, both of which are established residential districts. The remaining new completions are spread across Sen Sok and Mean Chey districts.

Although Chamkarmon remains the district with highest concentration of condominiums, the latest incoming new entries spread across various districts have reduced its overall share to 33%, followed by Sen Sok (19%), 7 Makara (12%) and Chroy Changva (11%). The remaining districts Boeung keng Kang, Toul Kork, Daun Penh, Chbar Ampov, Russey Keo and Mean Chey all recorded less than 10% share each.

Despite the economic turbulence caused by the outbreak of Covid-19 during Q1 2020, developers remained unwavering and 10 new off-plan condominium launches were recorded.

Eight of the launched projects are Mid-tier namely Leedon Heights (1,190 units), Garden Residency 2 (369 units), Phnom Penh Galaxy Garden (1,140 units), Parc 21 Residence (132 units), AKJ Bright Pearl (286 units), Grand Central (800 units), The Golden World (864 units) and Grand Condo 7 (142 units).

The only two High-end condominiums launched are namely Go Home Residence (448 units) and Le Conde' BKK1 (1,040 units).

Despite the weakening global economic outlook which caused many corporates and businesses to reduce non-essential employees and implement salary reductions, the condominium sector showed little sign of a setback, with on-going projects continuing as scheduled. Over the next three years, if all the monitored launched projects are completed as scheduled, the cumulative supply of condominiums in Phnom Penh is projected to surge up to 75,447 units post 2023 which is equivalent to a 244% growth if compared to the current number.

The worsening outbreak of the Covid-19 pandemic has adversely impacted the financial, manufacturing, logistics, automobile, tourism and hospitality sectors. This has led to an economic uncertainty and an increase in unemployment in many countries as corporates and businesses consolidate and look to reduce operational expenditure.

As the condominium market is still mainly driven by foreign purchasers and investors, the magnitude of impact is yet to be determined, depending on the longevity of the outbreak. In addition, buyers are adopting a wait-and-see approach towards investments and home purchases due to the uncertain economic repercussions post Covid-19.

Despite surging land prices, condominiums in city centre locations are more sought-after and preferred, encouraging developers to continue selling projects in Chamkarmon District. Over the next three years, taking into account all newly launched and on-going projects, Chamkarmon will retain the largest market share of condominiums at 20%, followed by Sen Sok (18%), Chroy Changva (15%), Mean Chey (12%) and Toul Kork (11%).

Inevitably, the Covid-19 pandemic took a toll on the sales rate of both High-end and Mid-tier condominiums. The restrictions of international travel directly impacted demand for condominiums. The average sales rate of monitored projects moderated to 5%, from 7% during H2 2019 and 15% during H1 2019.

Prices and Rental

Average selling price continued rising relentlessly despite the onset of Covid-19 pandemic; corrections yet to be evident.

Although price corrections were still not evident, a number of developers began offering flash discounts to entice purchasers and to improve sales rates. However, the average selling price of new launches as advertised by developers during the first half of 2020 was recorded at US$2,138 per sq m over the net saleable area; a 15% increase over the second half of 2019.

Notable projects included Leedon Heights, located in Sen Sok and comprising 1,190 condominiums, and Go Home Residence, a High-end condominium in Toul Kork. It is a 36-storey residential project developed by NEC Development Corporation comprising 448 units and priced on average at US$2,635 per sq m over the net saleable area.

Meanwhile, Le Conde' BKK1 is sited in Boeung Keng Kang District. Comprising 1,040 units, it is a large scale High-end project positioned as being the country's first smart home project with high-tech voice recognition technology from China tech giant, Xiaomi. Developed by Wangfu Guo Ji Property Development, the prices start from US$2,800 per square meter over the net saleable area.

Condominium Sector Outlook

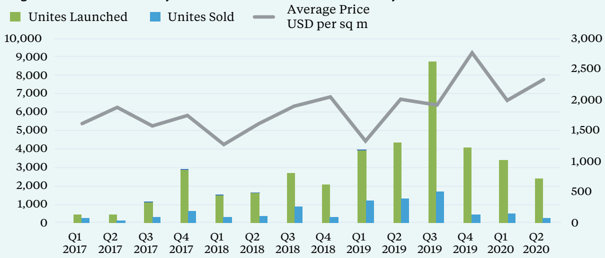
The travel restrictions under the "new normal" raises a concern for developers as the Cambodian condominium market is currently underpinned by foreign demand.

The condominium sector is clouded with uncertainty as the impact of the Covid-19 pandemic continues to unfold. However, although sales rates began to show signs of distress, price corrections were still not evident, save as for temporary discounts, rebates and free gifts offered by developers as incentives for new buyers

The global economic uncertainty has reduced offshore purchases as investors adopt a wait-and-see approach and International travel restrictions implemented have further exacerbated the situation by obstructing incoming expatriates to the country, leading to an even more reduced demand for condominiums.

The softening of investment activity and concerns over surplus supply in the pipeline will only weigh down investors sentiment and the general outlook for the condominium sector is cautious, subject to the right product positioning, location and price range.

Figure 13: Sales of Newly Launched Condominium units by Quarter



Source: Knight Frank Research

Figure 14: Cumulative Supply of Condominium units (2009-Post2023)

Source: Knight Frank Research

Key findings

12 new housing projects contributed 3,369 units to the monitored existing supply, taking the cumulative supply to 59,301 units as at the end of H1 2020.

11 off-plan housing projects were launched during the first half of 2020, dominated by Chip Mong Group. Grand Phnom Penh, which was sold to Chip Mong Land towards the end of 2019, launched a new phase in May 2020.

The total cumulative supply of landed houses in Phnom Penh is projected to increase to 78,066 if all projects complete as scheduled.

The Covid-19 pandemic has caused global economic uncertainty and toned down consumer spending, specifically on big ticket items. Thus, sales rates of new launches were placed under pressure, declining to 16% during H1 2020.

The total cumulative supply of landed housing in Phnom Penh is projected to increase to 78,066 units by post 2022.

Sen Sok is the most landed housing concentrated district with 25% of the total supply on the market.

The Woods, a Natha Residence, Phnom Penh

PHNOM PENH LANDED HOUSING SECTOR

Consumer spending and home buyer sentiment was curtailed during the first half of 2020 resulting in a significant drop in the sales rate of new launches

Supply and Demand

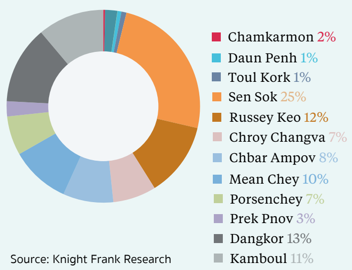
The rapid growth of landed housing supply continued unabated despite the Covid-19 outbreak; cumulative existing stock stood at 59,301 units as at the end of H1 2020.

Whilst the Covid-19 pandemic has negatively impacted the global economy, including the real estate sector, it did not deter developers from launching 11 new off-plan housing projects in Phnom Penh.

Although there were supply-side disruptions on the import of construction materials in Cambodia, 12 new housing projects were completed, delivering 3,369 units to the existing stock. A few notable completions were The Park Land 598 (360 units), The Park Land 271 (316 units), The Woods, a Natha Residence (12 units) Borey Vimean Phnom Penh P8 (600 units), Elite Town 3 (147 units), Mekong Royal Phase 2 (172 units) and New World Kour Srov (870 units).

With the new additions during H1 2020, the existing supply of landed housing was recorded at 59,301 units spread across 154 developments. Of the overall supply, 96% (57,009 units) are located in suburban areas whilst the remaining 4% (2,292 units) are within the city centre.

Figure 15: Distribution of Existing Landed Housing Supply by District



Source: Knight Frank Research

All three landed housing segments inched forward in tandem. Mid-tier housing still accounted for the majority of supply with 30,221 units (51%), followed by High-end with 22,348 units (38%) whilst the remaining 6,732 units (11%) were Affordable.

Location-wise, Sen Sok remained the dominant district with the most landed houses (25% of the overall supply), followed by Dangkor (13%), Russey Keo (12%), Kamboul (11%), Mean Chey (10%), Chbar Ampov (8%), Chroy Changva (7%), Porsenchey (7%), Prek Pnov (3%). Chamkarmon, Daun Penh and Toul Kork made up the remaining 4%.

The total future supply of landed housing in Phnom Penh scheduled for completion between the second half of 2020 and post 2022 was recorded at 18,765 units across 59 developments as at the end of H1 2020. The majority (72%) of the total future supply comprises units within the Mid-tier category, followed by Affordable (24%); the remaining units (4%) are within the High-End category.

Due to higher land costs in the city centre, with only a small percentage of the population being able to afford the higher end projects that have been launched in Phnom Penh, all of the future incoming housing projects are located in suburban areas. Dangkor comprises most of the incoming stock with 27%, followed by Kamboul with 16%, Mean Chey with 14% and Chbar Ampov with 11%. The rest are distributed in Sen Sok, Russey Keo, Chroy Changva, Prek Pnov and Porsenchey.

Year 2020 started off robustly with eight project launches, mostly within the Mid-tier segment. Notable launches during the first quarter of 2020 included Chip Mong 50M (435 units), Borey Chea Ry The Green Ville (600 units), Chancastle (119 units), Borey CT Villa (18 units) and Borey Galaxy 11 (150 units).

However, towards the end of the first quarter, after the announcement by the World Health Organisation (WHO) of Covid-19 as a global pandemic, lockdowns and movement controls circled from country to country as local governments implemented measure to contain the outbreak. The global financial, real estate, aviation, hospitality, logistics and manufacturing sectors were severely impacted as global mobility stagnated. Investment activities plummeted and unemployment rose, leading to a decline in home-buying sentiment. Only three new launches were recorded during the second quarter of 2020; Borey Cheam Tech (170 units), Borey Uptown (127 units) and Chip Mong Grand Phnom Penh City (176 units).

Chip Mong Grand Phnom Penh City was formerly owned by Grand Phnom Penh International City (GPPIC), a joint venture between LYP Group and Ciputra Group. It is an on-going mixed development currently comprising an 18-hole golf course surrounded by landed housing on 250-hectares of land. Upon acquisition, Chip Mong launched its new phase which includes landed housing and a Central Park, with its ground breaking commenced in May 2020.

The global economic fallout caused by the Covid-19 pandemic and rising unemployment have impacted all real estate sectors. Consumer spending and consumption dropped to near record lows, and purchases of big ticket items were placed on hold which tempered home-buying momentum. The overall sales rate for landed housing dipped down to 16%, from 34% recorded during H2 2019.

Prices and Rental

Average selling price across all segments continued accelerating, uplifting from $830 during H2 2019 to $1,131 per sq metre over the gross floor area during H1 2020.

Although the repercussions of the Covid-19 pandemic impacted all real estate sectors, landed housing remained a sought-after purchase, whether for owner occupation or investment, driven by the strong domestic market.

The landed housing sector saw a 36% uplift in average pricing, largely due to additional launches by Chip Mong Land and Peng Huoth, both of which are prestigious and well-known developers with units priced $1,000 per square meter onwards. With a generally low household debt ratio and healthy gearing ratio by most home owners, price corrections are unlikely over the shorter term outlook as demand for landed housing will be continuously underpinned by the domestic market.

Landed Housing Sector Outlook

Optimism observed among house builders and developers; new projects continuously launched and on-going projects to complete as scheduled.

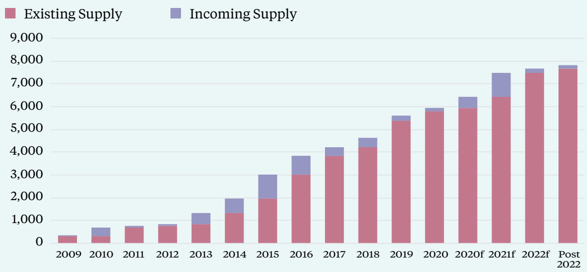
The repercussions of the Covid-19 pandemic have been felt globally, and the short term outlook remains cloudy. Unemployment has risen in Cambodia as many hotels, restaurants and garment factories temporarily or permanently closed their doors and Cambodia’s GDP growth is expected to contract during 2020 compared with growth of 7% recorded in 2019.

During H1 2020, consumer spending and consumption declined significantly subsequent to the Covid-19 outbreak, particularly for big ticket items. The market uncertainty and rising unemployment led to a subdued home buyers sentiment. Launches during end of March and April were noted to achieve poor sales rate, however, developers remained optimistic and began providing additional discounts and attractive payment plans to entice prospective home buyers.

Although the home-buying momentum was temporarily dampened during the first half of 2020, there remains a severe shortage of landed housing when compared with the growing household formation rate.

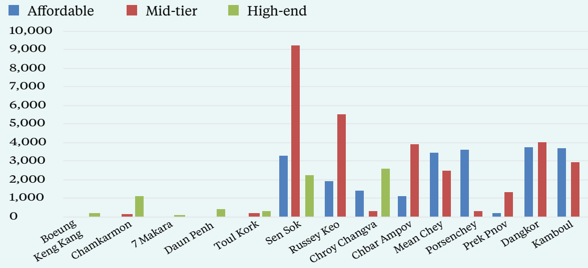
Due to Cambodia’s restriction on foreigners owning landed properties, the landed housing sector is driven mainly by the domestic market which is more sustainable over the medium to long term. The widely proclaimed V-Shaped Recovery is expected and applicable to the landed housing sector and the sector remains one of continued optimism.

Figure 16: Cumulative Supply of Landed Housing Units (2009-2021f)



Source: Knight Frank Research

Figure 17: Existing Supply by Location and Classification



Source: Knight Frank Research

SIEM REAP H1 2020 REVIEW

Overview

Siem Reap is major tourism city in Southeast Asia and is home to the world-famous Angkor Archaeological Park. This has underpinned steady growth in tourist arrivals during the past five years, with Siem Reap consistently welcoming over 2 million international tourists annually.

Tourism remains the main driver of the economy in Siem Reap Province, supporting many local businesses. However, towards the end of 2019, the number of international tourists arrivals began on a downward trajectory. The worsening of the Covid-19 pandemic in early March 2020 decimated tourist arrivals to Siem Reap which severely impacted the local economy.

The spread of this highly contagious outbreak forced many governments around the world to began implementing lockdowns and restricting incoming and outgoing tourists.

Although Cambodia only underwent a brief lockdown period, restricting domestic provincial travel in April, the lack of international tourists and the unprecedented global disruption sent the tourism and hospitality sector in Siem Reap grinding to a halt leaving most of its tourist attractions and entertainment streets eerily empty.

Under the government's guideline to contain the outbreak, all schools, entertainment centres and drinking establishments were ordered to cease operations until further notice forcing many retailers and shops to shutter.

The drop in international tourist arrivals placed significant pressure on hotel occupancy rates in the city, forcing many hotels and guesthouses to begin reducing operational expenses by cutting workforces and salaries, whilst many suspended operation, including a number of international hotel chains.

Indirectly, the absence of international tourists in Siem Reap has also impacted the retail sector with much reduced footfall, causing many businesses to temporarily or permanently close. On top of that, guidelines to restrict the number of customers, compliance to social distancing measures and generally the public's fear of contracting the virus further worsened retail footfall.

Although the global restrictions began easing towards the end of H1 2020, international tourism activities remained subdued with the global economic outlook uncertain amidst rising job losses.

The latest data from Ministry of Tourism revealed that the number of international tourists visiting Angkor.

Archaeological Park during the first half of 2020 declined by 68% compared with the same period in 2019. Towards the end of H1 2020, the government began easing international tourist restrictions by lifting the initial ban on foreigners from a number of countries with high level of infection. The ban was then replaced with new measures which required all incoming international tourists to deposit US$3,000 upon arrival to cover expenses for compulsory hotel quarantine, food, medical and Covid-19 tests and treatments along with a compulsory medical insurance certificate with a minimum coverage of US$50,000.

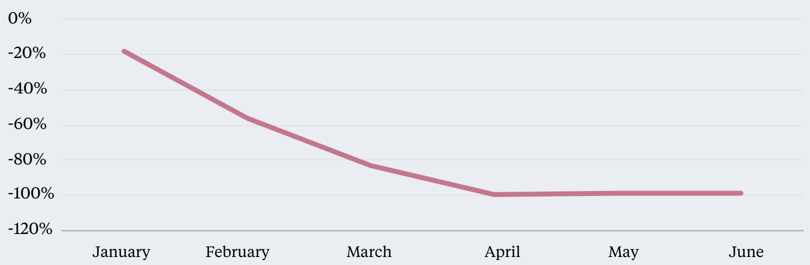
Looking at the residential sector, the impact of the Covid-19 pandemic moderated demand during H1 2020, however, developer selling prices remained resilient, albeit with discounts offered to prospective purchasers. Despite the slowdown, developers remained upbeat on the residential sector. One notable launch during the first half of 2020 was Rose Apple Square, a mixed development comprising condominiums, co-living apartments, strata-title offices and co-working spaces.

Other on-going projects in the pipeline which were unaffected include The Sky Park, ST Premier Residence, Bakorng Village, Borey Tourism City, SSC Residence, Angkor Grace and various other smaller-scaled landed housing projects. All the listed projects were scheduled for completion between H2 2020 and 2022.

Evidently, there are various on-going infrastructure improvements in and around Siem Reap, notably the new international airport, new outer ring roads, road rehabilitations, upgrades to the water supply system, improvements of the western causeway of Angkor Wat, conservation of Tonle Sap lake and improvements along National Road 6.

These continuous efforts by the government enhances accessibility to/from Siem Reap, promoting both international and domestic tourism, whilst also driving economic growth.

Figure 18: Siem Reap International Tourist Arrivals Y-o-Y % Change by Month (January to June 2020)



Source: Ministry of Tourism

HOTEL SECTOR

The declining tourist arrivals through Siem Reap International Airport towards the end of year 2019 was further exacerbated by the onset of the Covid-19 pandemic. As the outbreak worsened during Q1 2020, governments around the world began implementing lockdowns and restricting international travel to contain the chain of infection. According to the latest tourism data released by the Ministry of Tourism, Cambodia, the cumulative incoming arrivals and international tourist arrivals plummeted by 75% and 69%, respectively, during the first half of 2020 when compared with the same period in 2019.

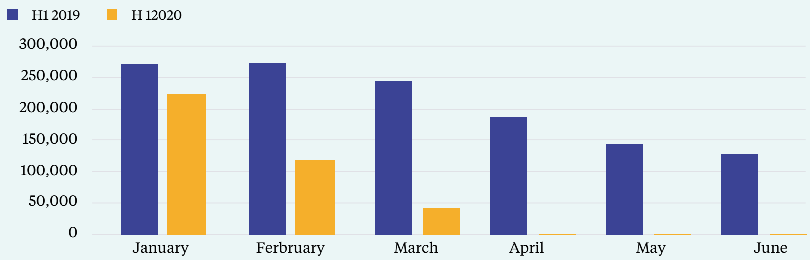
The lack of tourists and decline in hotel occupancy rates and room rates led to a number of operators permanently closing their doors. The latest tourism data by the Ministry of Tourism recorded approximately 172 hotels under temporary suspension and 18 hotels shuttered, equating to 78% of the overall hotel and guesthouse supply in Siem Reap.

Apsara Angkor Resort & Conference announced its temporary suspension after two decades of operations to undergo extensive renovation works. A number of other operators also took this opportunity to undertake much needed refurbishmemt and renovation works to their hotels.

As at H1 2020, the total existing supply of hotel rooms remained the same since the end of H2 2019 at 12,148 keys . This aggregate includes the aforementioned hotels that suspended operations either permanently or temporarily. During the first half of 2020, approximately 25% of the hotels in our monitored supply were operational, with most operators limiting the number of available rooms.

Heightened hygiene and sanitation policies were noted across all hotels including temperature checks and hand sanitizers placed strategically around hotels. Most food & beverage and recreational facilities (spa, swimming pool, sports) remained off-limits to guests to comply with the government's enforced virus prevention measures.

Figure 19: International Tourist Arrivals by months between H1 2019 and H1 2020



Source: Ministry of Tourism

No new hotels inaugurated during the first half of 2020. The ratio of hotel segment also remained the same as at the end of 2019 with 64% of the overall supply being Upscale & Upper Midscale,23% were Luxury & Upper Midscale hotels and the remaining 13% were Midscale & Economy.

The bleak outlook of Siem Reap's hospitality sector caused by the global outbreak has derailed many expansion plans for hotel operators with no new operator agreements signed. The much anticipated 158-room Luxury & Upper Upscale, Angsana Siem Reap under Banyan Tree Holdings, which was initially scheduled to open by H1 2020 has now rolled over to H2 2020.

Data from STR during revealed an average occupancy rate of 38.5% which is a 24.5 percentage points decrease compared over the same period of 2019 for Luxury, Upper Upscale & Midscale rooms. Starting off vigorously during January with an average of 61.5%, it slid during February and March to 41.8% and 12.7%, respectively.

Conversely, ADRs reported an increase of 3.8% during Q1 2020 as a result of various hotel closures and room limitations as operators reduce operation costs to stay afloat.

Outlook:

Towards the end of June 2020, the Government of Cambodia lifted the ban on incoming foreigners from specific countries with high level of infection. In addition, the tax exemption for tourism-related industries was prolonged to July 2020 for affected businesses, provided by the government to ease the burden of hoteliers and to prevent a cascade of closures.

By the end of H1 2020, incoming tourists showed no sign of improvement as countries around the world entered into different stages of the Covid-19 outbreak cycle. Although Cambodia reported a very low level of infection rate, the absence of incoming international tourists continues to place significant pressure on profitability for operators. The lackluster commercial activities surrounding the tourist belt of Siem Reap town led to a continuous cascade of business closures.

Amidst the global economic uncertainty and until a vaccine is found, the tourism sector will continue to be challenged and the path to recovery for Siem Reap's hotel sector will be heavily reliant on domestic tourism.

RETAIL SECTOR

Even prior to the onset of the Covid-19 global pandemic, footfall in purpose-built shopping malls has been declining since the end of 2019.

This decline was exacerbated by Covid-19, with the tourism and hospitality sectors bearing the full brunt the global pandemic. The reduction of incoming tourists has adversely impacted the retail sector with footfall on retail streets and shopping malls noticeably worsened, hampering profitability of retailers.

Although the number of retailers that chose to cease operation was nominal, retailer profitability was significantly impacted due to the massive drop in footfall and consumer spending, which is likely to result in negotiations by tenants for prolonged rent-free periods, lowering rentals, yields and occupancies of retail mall and outlets and reducing overall returns for landlords.

Only a few retailers were noted to have temporarily suspended business, with most reopening in June whilst others are slated to reopen by Q3 2020.

Despite travel restrictions and lockdowns not being implemented in Cambodia, consumer spending reduced significantly and was skewed towards essential items due to the rising unemployment rate and economic uncertainty. Spending on non-essential, especially big ticket items, recorded the largest decline thus affecting business turnover for non-essential retailers.

During the first half of 2020, there were no new purpose-built retail completed or launched with the only malls in the pipeline being Kulen Central Mall, The Century Road and Colossus. However, these malls were either still in planning stage or put on hold.

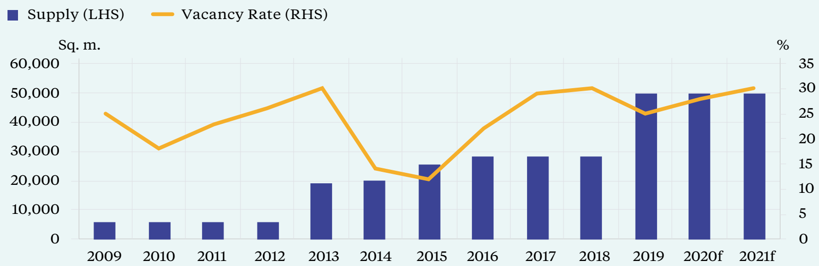
The transformation to modernise retail formats in Siem Reap has historically been slow and gradual. To-date, the retail landscape is still dominated by traditional shophouses , which are highly patronised by the domestic populace, as the lower rentals can be translated to lower costs for end users and consumers.

With social distancing measures becoming common place and the government issuing operation guidelines on preventive measures, all mall operators heightened hygiene and sanitation procedures which included temperature scans at all entry points and the provision of hand sanitisers at all strategic locations.

In addition to the impact of Covid-19, Siem Reap remains a town that is largely dependent on tourism; whilst Siem Reap Province has a population of approximately 1 million, the town itself has a permanent population of approximately 140,000. This small population has been unable to sustain a large-scale retail format.

Over the medium tem, tourism is expected to remain a key driver of demandfor the Siem Reap retail sector. Thus, there is a need for more diversified tourism offerings such as the newly opened Angkor Eye Ferris Wheel, which is an 85-metre high Ferris wheel overlooking the entire town and Angkor Wat. Such attractions will encourage repeat visitation by both domestic and international tourists consequently kick-starting the hustle and bustle of the town.

Figure 20: Siem Reap Supply and Demand of Retail Space



Source: Knight Frank Research

Outlook:

The tourism industry in Siem Reap is the main driver of the local economy. The performance of the retail sector directly correlates with the performance of the tourism sector. Historically, the Angkor Archeological Park has attracted millions of international tourists annually, which has sustained growth in the Siem Reap retail sector. However, the international travel restrictions implemented by governments around the world have adversely impacted Siem Reap's economy; to prevent a cascade of business foreclosures, the Government of Cambodia has been advising landlords to exercise leniency towards retailers showing distress. The Government has urged landlords to re-negotiate lease terms and temporarily reduce rents. Additionally, banks have been advised to increase loan liquidity for affected businesses and to provide discretionary loan moratoriums.

Although global travel restrictions were gradually relaxed towards the end of H1 2020, international tourism has yet to resume and most tourists postponed travelling plans out of fear of contracting the virus. Thus, similar to other touristic cities globally, the recovery of Siem Reap's retail sector will be largely dependent on domestic tourism over the short term. To encourage entice visitors back to Siem Reap, several attractions are already in the pipeline to provide diversified venues including the Angkor Wild Life Park & Aquarium, Smile of Angkor (a Cambodian-Chinese culture theater) and other minor water parks.

RESIDENTIAL SECTOR

With the global pandemic impacting the hotel and retail sectors, buyer sentiment for residential properties in Siem Reap has also toned down. The residential sector in Siem Reap is mainly driven by the local resident population as well as Phnom Penh city dwellers purchasing holiday homes or investment properties. However, the worsening of the Covid-19 outbreak has caused a global economic crisis, prompting investors and households to deter big purchases.

As at H1 2020, the cumulative existing landed housing supply in Siem Reap was recorded at 1,781 units across nine projects, namely Borey Angkor Palace, Borey Prem Prey, Borey Tourism City, Borey Seang Nam, Borey Ear Heng, Borey Perfect, Borey Shopping Arcade, Borey Premier Angkor Palace and Phum Thmey Residence.

In-line with the Siem Reap Master Plan 2035, the larger vicinity of land zoned residential is located in the southern and eastern communes. Svay Dangkom commune tops the area concentration of landed housing with 44% of the overall supply, followed by Sala Komrek commune with 33% and the remaining in Chreav commune with 23% of the supply.

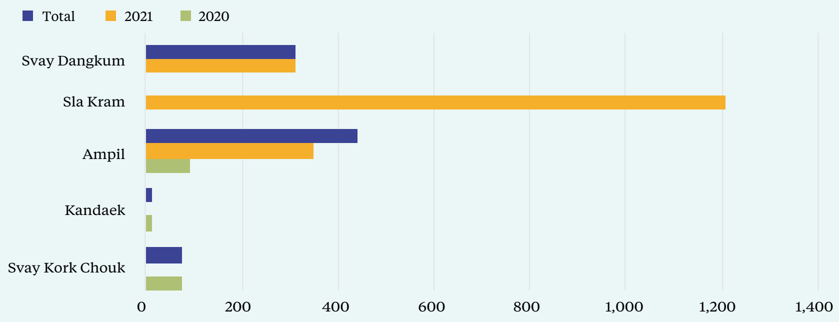
Approximately 2,050 units are scheduled for completion between H2 2020 and post 2021, spread across seven projects. The majority of the future pipeline is concentrated within Kandaek Commune, namely the remaining phases of Borey Tourism City. The communes of Kandaek, Ampil and Bakorng are increasingly earmarked by Borey developers as they are sandwiched between Siem Reap town and the new international airport location.

The adverse impact of Covid-19 on landed housing in Siem Reap has been on the average sales rate, which trended downwards during H1 2020. Prices remained resilient, however, on-going projects were observed to have begun offering discounts.

To-date, there are no completed purpose-built condominiums in Siem Reap, mostly due to the height restriction within Apsara Zone.

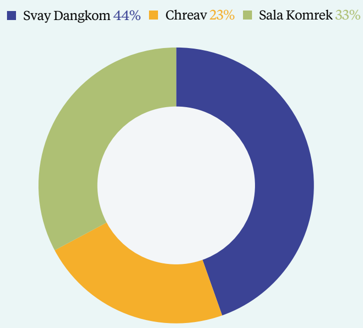
However, there are two projects in the pipeline, one of which is scheduled to complete by the end of 2020, The Sky Park. This condominium upon completion will contribute 40 units to the Mid-tier segment. Whilst another project launched during the first half of 2020 was Rose Apple Residence, comprising 241 units of Mid-tier condominiums, co-living apartments, strata-title offices and co-working space. Pricing for Rose Apple Residence ranged bweteen US$2,000 and US$2,300 per sq m over the net saleable area.

Figure 21: Future Supply by Location and Year of Completion



Source: Knight Frank Research

Figure 22: Existing Supply by Geographical Location



Source: Knight Frank Research

Outlook:

Sales activity has undoubtedly moderated in Siem Reap for both the landed housing and condominium sectors. The Covid-19 global pandemic has disrupted the entire tourism activities in the province, and the drop in international tourist arrivals has led to empty street, forcing hotels, retailers, restaurants and entertainment centres to temporarily or permanently close.
The global pandemic has led to uncertainty and increased unemployment, shifting consumer spending habits towards essential and household necessities. Buyer sentiment on big ticket items such as condominiums and landed houses has seen the biggest impact, with many adopting a wait-and-see approach.

However, the supply of condominiums and landed housing remained scarce in Siem Reap. Underpinned by continuous infrastructure improvements, the outlook is still generally of cautious optimism with windows of opportunity for investors and a prospective recovery over the medium term if the virus outbreak is contained with tourism activities and commercial trades resuming.

SIHANOUKVILLE H1 2020 REVIEW

Overview

During recent years, Sihanoukville has been increasingly known as a hub for Chinese investors, mainly focused on gaming and hospitality investment, as well as the Chinese-led Sihanouville Special Economic Zone.

However, subsequent to the national ban on online gambling, many developers have been forced to cease on-going investment due to a lack of demand from Chinese investors. The entire Sihanoukville economy has been impacted by this departure, which in turn has led to downward pressure on rents and prices across all real estate sectors.

The global recession triggered by the Covid-19 pandemic has exacerbated the situation. The pandemic has sent the global economy plunging. Cambodia has also weakened tremendously due to the pandemic; many global organisations including the World Bank, IMF and ADB have predicted a contraction in GDP growth for 2020.

The above notwithstanding, the coastal region of Preah Sihanouk Province is the most dynamic developing hub in Cambodia and this has led to a significant increase in the number of tourist arrivals.

Statistically, international tourist arrivals to the coastal provinces including Koh Kong, Preah Sihanouk, Kampot and Kep were recorded at 301,936 as at H1 2020, representing a fall of 49.5 percent compared to the same period of 2019, whilst Sihanoukville welcomed 186,423 international tourists during the first six months of 2020, reflecting a decrease of 53 percent compared to the same period last year. Whilst this is a significant decline, it is much lower than the national average.

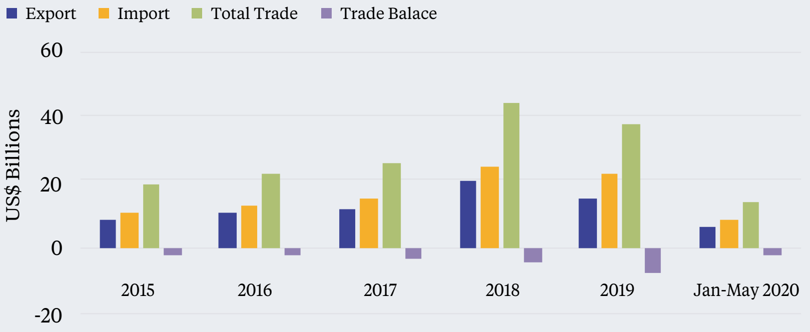
Sihanoukville International Airport (Kong Keng International Airport, KOS), which reached 1.68 millions passenger movements during 2019, recorded a mere 188,000 arrivals during the first half of 2020, reflecting a fall of 75.1 percent compared to first half of 2019. This can, in part, be attributed to the travel restriction imposed by many countries.

The only operational deep sea port in Cambodia, Sihanoukville Autonomous Port (SAP), remains Cambodia's major trade gateway for imports and exports. In the first five months of 2020, despite the Covid-19 outbreak, Cambodia's export turnover reached US$5.90 billion, an increase of 11.7 percent y-o-y compared with the same period last year. Import were recorded at US$8.1 billion, down 1 percent from the same period last year. As a result, the turnover of total trade was accounted at US$14 Billion and the trade balance was recorded at US$-2.2 billion.

In recent years, Cambodia's construction sector has grown to become a major contributor to the country's economic growth. None more evident than in Sihanoukville, which has undergone a major transformation during the past five years.

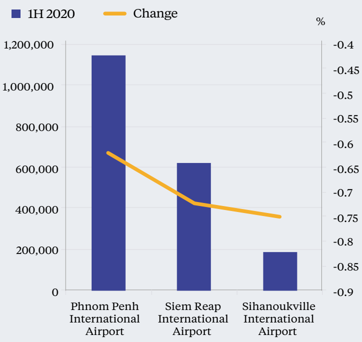
Supported by both the Cambodian and Chinese Governments, there has been a big focus on infrastructure improvement, which will greatly benefit the province over the long tem. The construction of a 34- road network in Sihanoukville including a ring road is now almost complete, whilst the on-going expressway between Phnom Penh –Sihanoukville is expected be open in 2023.

Figure 23: Trade Trend in Cambodia 2015-May 2020 (US$ Billions)



Source: Ministry of Commerce/National Bank of Cambodia

Figure 24: Number of Passengers across the Country's Three main Airports



Source: Ministry of Tourism

RESIDENTIAL SECTOR

Residential development in Sihanoukville has been highly active over the last four years, underpinned by growing investment from China which has been driven by China's 'One Belt, One Road' policy.

During the first half of 2020 there was a total of 2,900 condominiums in Sihanoukville's existing pipeline across 7 projects including Cvik Apartment 1, Cvik Apartment 2, Classic Condo, Sunshine Bay, Blue Sky Tower, Blue Bay and D'Seaview.

D'Seaview is a large scale international mixed use project comprising residential, retail, office and a hotel; it was the first international standard project to be launched in Sihanoukville in Q4 2015.

Its completion added 741 units in the first quarter of 2020. The completion of D'Seaview distributed more supply in Sangkat Bei (3), representing 91% of the total existing supply.

By segment, 75% of the existing supply was categorised as High-end, followed by Mid-tier (24%) and Affordable (1%) units. The large attribution of High-end units were dominated by the two large scale projects, Blue Bay (1,440 units) and D'Seaview (741 units), both located in Sangkat Bei (3) with average developer's prices US$2,000 to US$3,500 per sq m of NSA, respectively.

38 projects were recorded in the future development pipeline, of which the majority are located in Sangkat Bei (3) (57%), followed by Sangkat Boun (4) (37%), Sangkat Mouy (1) (5%) and the remaining 1% are located in Sangkat Pir (2).

Despite the Covid-19 crisis since March, there were an additional 4,439 units launched across 4 projects including; Gold City, Happy City, Grenting West and D Varee Kampong Dewa. All the newly added developments are scheduled to be completed between 2021 and 2024.

The average selling price of newly launched condominiums during H1 2020 was recorded at US$1,894 per sq m of NSA.

Newly added projects included Happy City. The project will contribute 1,593 condominiums to the future stock within Sangkat Mouy (1); it is categorised as Mid-tier offering one bedroom to two bedroom units with average developer's prices starting from US$1,700 per sq m of NSA.

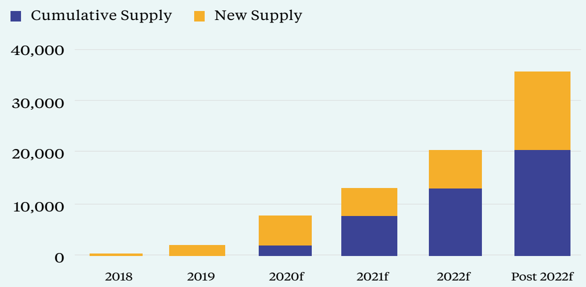
Assuming all the on-going projects are completed as scheduled, the total supply will swell to 35,570 post 2022.

Sihanoukville city is undergoing a rapid urbanisation process and the condominium developments are focused on the city centre, whilst landed housing (Borey) projects are mainly concentrated at city fringe locations. Notable on-going housing developments included Borey VIP, Leshen The Lord Garden, Hill Park Villa, The National Coast, Gold City Villa, East Sihanoukville Park and East Sihanoukville City.

Figure 25: Average Launch Price in Sihanoukville (2015- H2 2019)

Source: Knight Frank Research

Figure 26: Sihanoukville Condominium Cumulative Supply (2018-Post 2022f)



Source: Knight Frank Research

Outlook:

The outbreak of the Covid-19 pandemic in the first quarter of 2020 continues to bring much uncertainty and more challenges to the residential market. Newly launched residential projects recorded lower transaction activity during the first six months of 2020 and this trend is set to continue over the short term.

Whilst both the Cambodian and Chinese Governments are taking measures to ensure the long term success of Sihanoukville as an economic and tourism hub, which included the appointment of the Shenzhen Institute of Planning to undertake a master planning exercise for the province, the short term outlook for the residential sectors in Sihanoukville is cautious as the local population continues to decline with the repatriation of Chinese residents and domestic demand remaining limited.

HOTEL SECTOR

Growth in passenger movements through Sihanoukville International Airport in 2019 was at a record high, and it was hoped that this would continue into 2020. However, with the pandemic forcing countries worldwide to impose entry bans and border closures, the passenger traffic was heavily impacted, recording a drop of 75% during H1 2020 if compared to the same period of 2019.

Covid-19, on top of the ban on online gambling in Cambodia, has had severe repercussions for the Sihanoukville tourism sector.

As with the other major tourism hubs in Cambodia, many hotels temporarily closed operation in Sihanoukville amid the pandemic. The majority of hotels had only opened during 2019 and were already forced to close due to a lack of tourist arrivals.

As at H1 2020, there were 84 hotels with 50-rooms and above. The Sihanoukville existing supply was recorded at 9,837 keys, reflecting an increase of 88% compared to the same period in 2019.

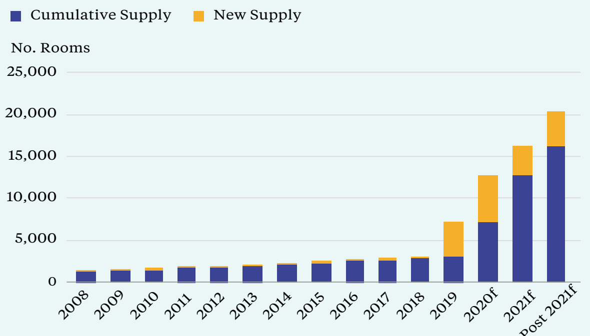
During the first half of 2020, 2,677 keys across 19 hotels were added to the Sihanoukville supply. The majority of them were Chinese chain hotel operators within the Midscale & Economy and the Upscale & Upper Midscale classification.

The most high profile completion was the Howard Johnson by Wyndham, adding 300 keys to Sihanoukville's lodging accommodation, within the Upscale & Upper Midscale category. Other additional notable openings were Easton Grand (170 keys), Platin International (190 keys), Jin Bei Palace (192 keys) and Jin Bei Artisan (151 keys).

The majority of the existing supply was still dominated by the Midscale & Economy segment, accounting for more than half of the overall total supply (51%), followed by the Upscale & Upper Midscale (40%) and the Luxury & Upper Upscale segment (10%).

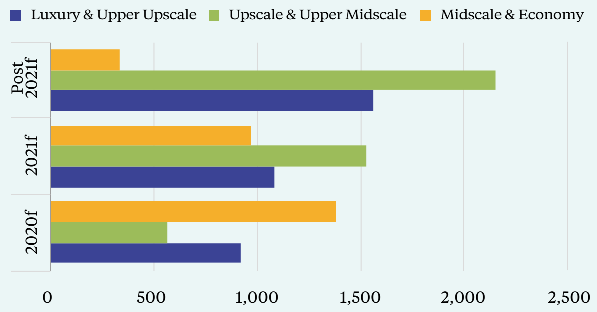
Between 3Q2020 and post 2021, an additional 10,498 rooms have been identified within the future development pipeline, which will result in an increase of 107% from the existing supply as at H1 2020. Most of the future supply was classified within the Upscale & Upper Midscale segment (40%), followed by the Luxury & Upper Upscale (34%) and Midscale& Economy (26%) segment..

Figure 27: Cumulative Supply of Hotel Rooms (2005 - Post2020f)



Source: Knight Frank Research

Figure 28: Cumulative Supply of Retail Space (2019-2022f)



Source: Knight Frank Research

Outlook:

The Covid-19 pandemic devastated demand for hotel rooms during the first half of 2020 and many on-going projects that were scheduled to complete this year are estimated to roll over to 2021. Furthermore, the lack of tourist arrivals intensified competition between hoteliers, placing downwards pressure on occupancy and average daily rates (ADR).

Furthermore, since China cemented its position as the top source market for Sihanoukville, domestic tourist arrivals experienced a sharp decline between 2017 and 2019, largely due to a loss of appeal owing to the city's ongoing construction works and deterioration of the city's infrastructure.

Over the short to medium term, domestic tourism is expected to play an important roll in Sihanoukville's tourism recovery, underpinned by the national campaign to promote the province as an attractive destination.

COMMERCIAL SECTOR

Demand for Sihanoukville's commercial real estate has been increasingly driven by the growing construction sector and the significant increase in construction workers in the city. The led to the opening of the first purposed-built retail format, Furi Time Square Mall, as well as several other projects in the development pipeline.

The latest opening during H1 2020 was D'seaview, a Singaporean project comprising residential, retail, office and a hotel component, adding 20,078 sq m of NLA into the existing retail supply in Sihanoukville.

The total existing supply of retail space in Sihanoukville was recorded at 26,078 sq m of NLA as at the end of first half 2020.

This increased the retail space per capita to 0.08 per sq m as at the end of H1 2020, compared with 0.02 per sq m as at the end of H2 2019, according to the Sihanoukville population census of 2019 at 302,887. Meanwhile, the current supply of office space was recorded at 140,540 sq m of NLA across five buildings. Most of the stock was located within the larger hotel and mixed-use developments.

The ratio distribution of the Sihanoukville commercial space between the office and retail was recorded at 84 : 16.

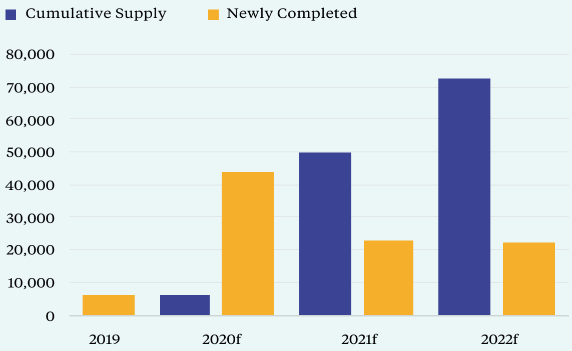
There are several on-going projects typically including retail and office uses in the component mix. The future retail supply in the pipeline was recorded at 88,745 sq m, whilst the future office supply was recorded at 59,391 sq m.

The high profile group, Prince Real Estate, is slated to open a 30,000 sq m NLA shopping mall during 2020. The project has started pre-leasing and will be occupied by many international brands such as; Starbucks, KFC, Adidas, Nike, Levis, Pedro, Amazon Café with anchor spaces to be occupied by Legend Cinema and Prince Supermarket.

Up to-date, retail space continued to be dominated by traditional shophouses. The overall demand for commercial space within Sihanoukville remains subdued, thus Furi Time Square was the first, and to-date, the only purpose-built modern retail format in Sihanoukville.

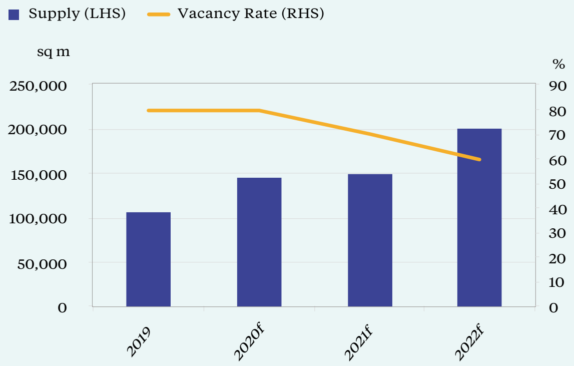
During the H1 2020, the overall occupancy rate within retail was recorded 50%. Meanwhile, the overall occupancy rate of office space was 12.8% due to the limited demand from multinational companies setting up in Sihanoukville.

Figure 29: Cumulative Supply of Retail Space (2019-2022f)



Source: Knight Frank Research

Figure 30: Supply and Demand of Office Space (2019 - 2022f)



Source: Knight Frank Research

Outlook:

Despite the limited incoming supply of commercial property in Sihanoukville, demand remains low across both the office and retail sectors. Future demand for office space is expected to be driven by the relocation of Chinese corporations, currently operating from converted shop houses, to newer offices with better specifications.

While all real estate sectors are struggling post the Covid-19 pandemic, the commercial landscape looks relatively bleak over the short to medium term. Over the longer term, upcoming mega projects by Chinese investors will benefit Sihanoukville's commercial sector on top of the government's continuous investment in infrastructure improvements.

INDUSTRIAL SECTOR

The coastal Province of Sihanoukville is Cambodia's main transport and logistics hub, underpinned by the only operational deep-sea port in Cambodia; the seaport of Sihanoukville Autonomous Port (SAP).

Covering a total land area of 125 hectares, the port can accommodate ships of 10,000-15,000 tons deadweight. However, the COVID-19 pandemic has created significant disruptions to the SAP's revenue; during the first six months of 2020, SAP's total revenue recorded a decrease of 2.63 percent Y-o-Y compared to same period of 2019.

Despite the drop in total revenue, Cambodia's export turnover reached US$5.9 billion in the first five months of 2020, recording a increase of 11.7 percent Y-o-Y compared to the same period last year. Meanwhile, the total import turnover was recorded at US$8.1 billion, a decrease of 1 percent y-o-y, resulting in a trade balance of US$2.2 billion.

The current supply of industrial premises is typically located within Special Economic Zones (SEZs). As at H1 2020, there were 4 operational SEZs covering a land area of 2,277 hectares and comprising 178 enterprises, providing 25,903 jobs within the industrial sector. These SEZs are the Sihanoukville Port Special Economic Zone (SPSEZ), the Steung Hav Special Economic Zone (SHSEZ), the Sihanoukville Special Economic Zone (SSEZ) and Cambodia Zhejiang Guoji Special Economic Zone.

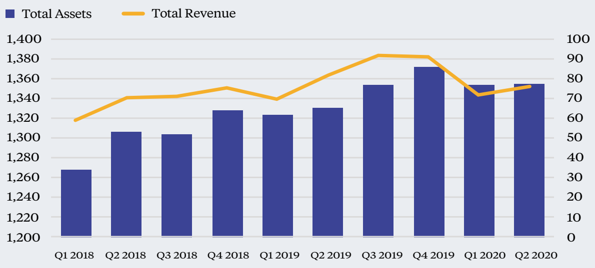
The largest industrial share is the Sihanoukville Special Economic Zone (SSEZ). The project is part of China's "Belt and Road" policy, and commenced operation in 2008. The development was split into two phases, Phase 1 comprises 528 hectares and Phase 2 comprises 580 hectares. As at H1 2020, there were 165 operational manufacturers originating from China, Europe, US and South-East Asia regions.

There were no pending applications for SEZ approvals in Sihanoukville Province. However, according to and sub-decree by the Royal Government of the Kingdom of Cambodia, out of 5 approved SEZs in Sihanoukville, one was non-operational, covering an aggregate land area of approximately 900 hectares.

Garment/textile and footwear are the primary products in the manufacturing industry, most of which are produced for export purposes.

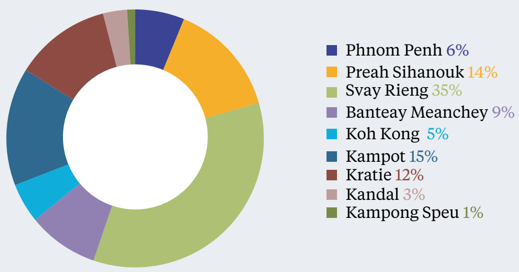
Whilst the SSEZ is the best performing SEZ in Cambodia, land and rental prices in Sihanoukville in prime locations have risen higher than Phnom Penh, placing operational pressure on SEZ owners and stakeholders to increase prices. As at H1 2020, factory rental prices within Sihanoukville remained stable ranging between USD2.30 to US$4.50 per sq m over the gross lettable area per month. Whilst vacant industrial land lease premiums for 50 years in SEZs also remained stable ranging between US$45.00 per sq m to US$70.00 per sq m over the land area.

Figure 31: Sihanoukville Autonomous Port (SAP) Financial Performance & Position (Q1 2018 to Q2 2020) (KHR Billion)



Source: Sihanoukville Autonomous Port

Figure 32: Operational SEZ's Land Supply by Province



Source: Knight Frank Research

Outlook:

Although the announcement of the EU's preferential Everything But Arms (EBA) agreement partial withdrawal has slowed the pace of manufacturing in Cambodia, further exacerbated by the Covid-19 pandemic, incoming garment manufacturing entrants continued unabated with 95 newly approved factories, out of which 10 will be setting up in Sihanoukville, equating to 11%. The majority of the new entrants will be manufacturers for food, flooring and automobile parts.

Due to its strategic location, large labour pool and with major infrastructure projects in the pipeline, Sihanoukville will continue to attract more major industrial companies. Demand in the province is being further strengthened by the close relationship between Cambodia and China, and in line with the Industrial Development Policy (2015-2025), the medium and long term outlook for the industrial sector in Cambodia and Sihanoukville is very promising.

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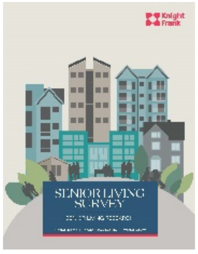

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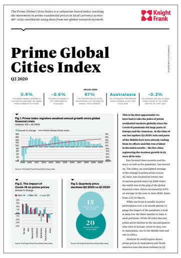

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