

RESEARCH



# CAMBODIA REAL ESTATE HIGHLIGHTS

2<sup>ND</sup> HALF 2015

OVERVIEW

COMMERCIAL SECTOR

RESIDENTIAL SECTOR



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One of our responsibilities as a global leader in property research and consultancy is to stay on the market pulse to ensure that we provide up-to-date and valuable information. Our goal is to share an accurate and relevant view of Cambodia's real estate industry with our clients and our partners through our Real Estate Highlights series.

## OVERVIEW

Moving into the second half of 2015 Cambodia continued to enjoy robust growth, albeit at a slightly slower pace underpinned by growth in the garment, construction and services sectors.

### New construction starts continue unabated

With Cambodia's economy forecast to expand by approximately 7% in 2015 and 2016, increasingly driven by growing domestic demand, the construction industry has been one of the main contributors to GDP during the first 9 months of 2015.

Despite growing concerns over certain sectors of the Cambodia real estate market, according to the Ministry of Land Management, Urban Planning and Construction, during the first 9 months of 2015 investments in the real estate and construction sector had a combined worth of US\$1,752 million compared with US\$1,540 million during the corresponding period of 2014, equating to an annual increase of 13.8%.

The top five investing countries were Korea, China, Japan, Britain and Malaysia, indicating that the majority of investment inflows into Cambodia still originate from countries within Asia.

### Trends for 2016

#### With signs of softening in certain sectors, some developers are diversifying

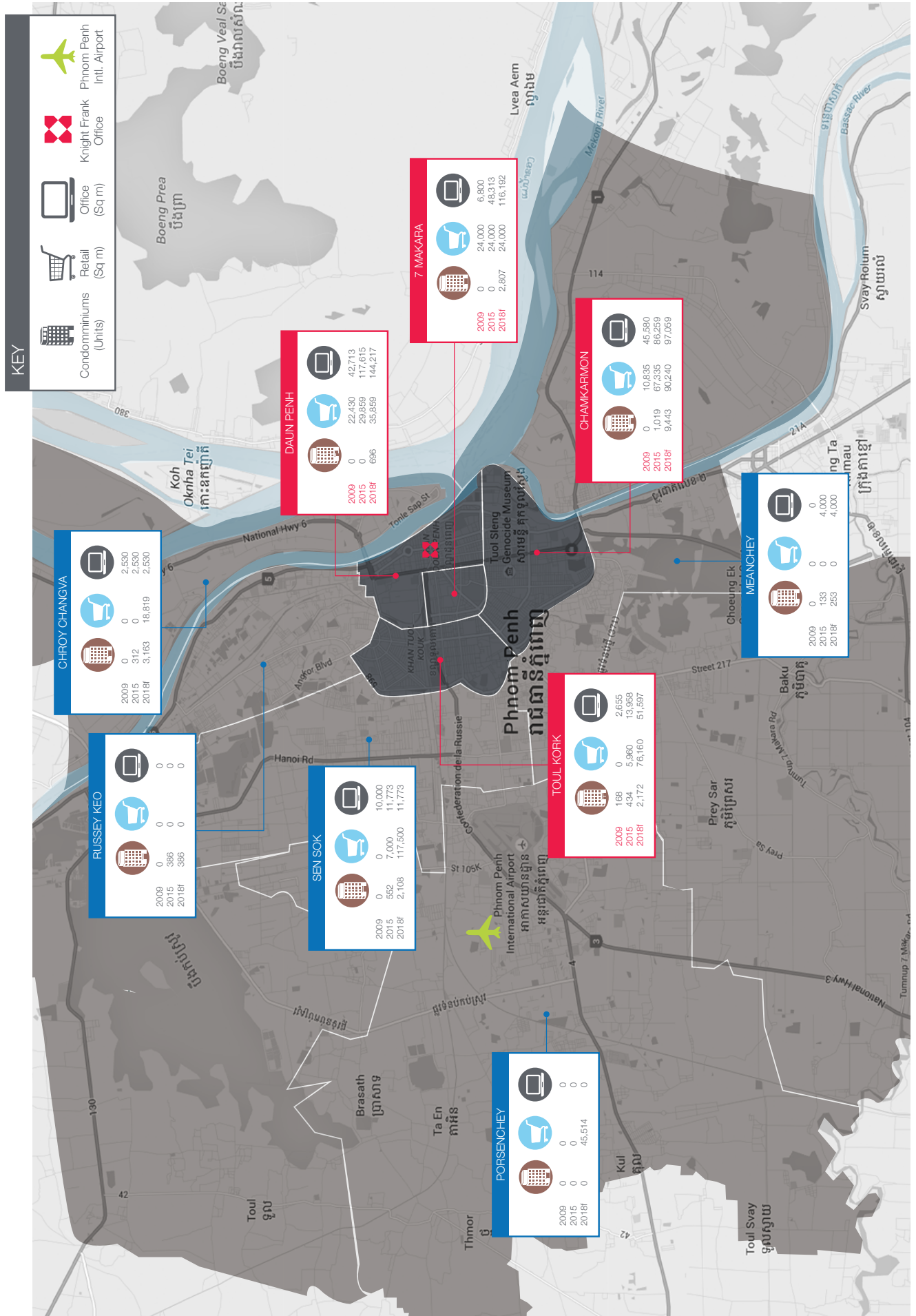
The graphic alongside depicts the growth in the office, retail and condominium sectors between 2010 and 2018f. Whilst the supply of retail and office space will approximately double by 2018, the supply of condominiums will increase by more than six fold. This has led to a recent slowdown in sales rates of condominiums and developers are looking at alternative asset types to appeal to investors.

TC Royal Asset Manor was one of the pioneers in this area with the launch of stratified office units in their TK Royal One development. This has been followed by a raft of new stratified office developments as developers seek to diversify away from the condominium sector.

Equally, with more funds being allocated to infrastructure improvements, we are seeing increasing investment in the industrial sector as multinational companies assess the benefits of setting up operation in Cambodia, particularly along the border with Thailand.

Furthermore, we are seeing growing demand for agricultural land as foreign companies seek to take advantage of a more mechanised approach to farming, providing higher crop yields and healthier returns.

FIGURE 1  
CHANGES IN VOLUME ACROSS THE CONDOMINIUM, RETAIL AND OFFICE SECTORS BY DISTRICT (2009 – 2018f)



## KEY FINDINGS

**V-Trust Tower's opening added 15,000 sq m of net lettable area to the Grade B office supply**

**The introduction of stratified office buildings provides investors an opportunity to diversify into the commercial sector**

**New online business registration system hopes to cut down on red tape and reduce registration processing time**

**A 50.2% increase in office stock is expected in the next 3 years**

# PHNOM PENH OFFICE SECTOR

High-rise stratified office space is introduced for the first time to Phnom Penh with the launch of Diamond Twin Tower, The Gateway, and East Commercial Centre, providing an opportunity to invest in purpose-built office units.

## Supply and Demand

**A significant portion of office future supply to add to Grade A and Grade B sectors, while Grade C offices continue to dominate supply**

While the majority of office space currently falls under the Grade C category, upcoming developments such as the East Commercial Centre (ECC), The Gateway and Diamond Twin Tower will increase supply of Grade A and Grade B office space.

As at 2H 2015, the office stock was recorded at 284,448 sq m of net lettable area (NLA) showing a 19.6% increase in office supply when compared with 237,901 sq m of NLA recorded at 2H 2014. Meanwhile, future supply is forecast to reach 427,368 sq m within the next 3 years increasing the supply by 50.2%.

V-Trust and ACLEDA Tower's openings in 2H 2015 added a total of 40,800 sq m in NLA to the Grade B stock. V-Trust Tower, formerly known as GT Tower, has attracted tenants such as Bosch, Japan

Tobacco International, Admiral Markets, CIMB Bank and Phnom Penh Securities, while ACLEDA Tower is expected to be largely owner-occupied.

Olympia City, a large mixed-use development which is set for completion by 2019, comprises multiple office towers and is expected to contribute approximately 67,878 sq m of purpose-built office space to the Grade A and Grade B supply.

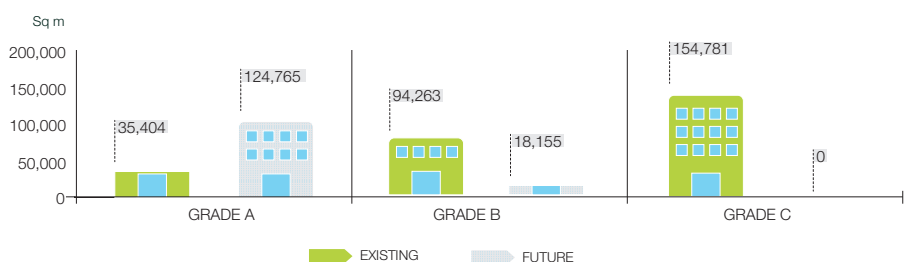
Emerald Tower, City Tower Asia and Maybank's headquarters, which were initially scheduled for completion in 2015, remain under construction, and are set to add a total net lettable area of 14,202 sq m to the Grade B office supply by 1H 2016.

Other notable projects such as The Peak, The Gateway, Diamond Twin Tower and the ECC, along with Exchange Square, are also expected to significantly increase the office supply of prime office space in Phnom Penh.

The Gateway, a project by the Singaporean group TACC, is expected to deliver 299 freehold office units by 2019, while Diamond Twin Tower by Chao Ting International Real Estate

FIGURE 2

### FUTURE AND EXISTING SUPPLY OF OFFICE SPACE BY CLASSIFICATION



Source: Knight Frank Research

Co., Ltd. has started selling their office tower comprising 160 units. Both projects aim to contribute to the Grade A office sector. Meanwhile, the ECC which is currently under construction at the south-end of Norodom Boulevard looks to increase the number of units in the Grade B sector. These three projects, assuming that all complete as scheduled, will be the first to launch sales of high-rise purpose-built stratified offices in Cambodia.

## Occupancy

### Occupancies across office grades remain stable in the short-run

Occupancy for Grade A office remains muted below 30%, while Grade B and Grade C offices continue to enjoy occupancies of above 84% and 94%, respectively.

Net absorption of prime office space returned to positive territory in 2H 2015 compared to 2H 2014, while prime vacancy saw a decline of 6.5 percentage points in 2H 2015 when compared to the same period in 2014.

Banks, engineering, investment, business consultancy and insurance firms, continue to occupy the majority of space in purpose-built office buildings.

## Prices and Rental

### Rental prices remain stable as supply increases at a steady rate

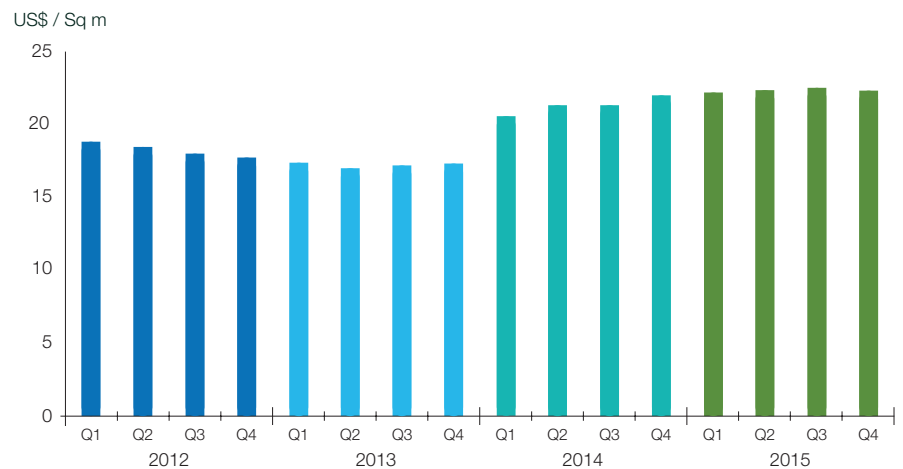
Current asking rents for prime office space range from US\$19 to US\$38 per sq m, while the average rental price across all office grades was recorded at US\$18.43 per sq m per month as at 2H 2015.

Meanwhile, selling prices start at around US\$4,500 for stratified Grade A office units at The Gateway.

The Knight Frank Prime Office Index shows a slight increase in the average prime headline rent from US\$21.6 per sq m per month in 2H 2014 to a US\$22.3 per sq m per month average in 2H 2015, showing a 3.2% increase. However, quarter on quarter (q-o-q) the prime

FIGURE 3

### KNIGHT FRANK PRIME OFFICE RENTAL PRICES BY QUARTER (PHNOM PENH)



Source: Knight Frank Research

headline rent declined by 0.6% to US\$ 22.2 between Q3 2015 and Q4 2015.

## Office Sector Outlook

Completions of a few large projects especially from 2017 onwards will likely result in downward pressure on rental prices for Grade A and Grade B offices.

Nonetheless, a steady supply of completions keeps the office sector free from the threat of oversupply and a sudden downward correction in market rents in the short-term.

Demand for Grade A has not seen a significant increase within the past 6 months, with Grade B and Grade C still commanding the highest occupancy rates.

For the office sector, the implications of the highly anticipated ASEAN economic integration might not be immediately apparent as there is no significant surge of investment expected to enter the Kingdom in the short-term. However, other factors impact heavily on investor confidence, including the country's economic and political environments, with particular emphasis on the latter given the upcoming general elections in 2018.

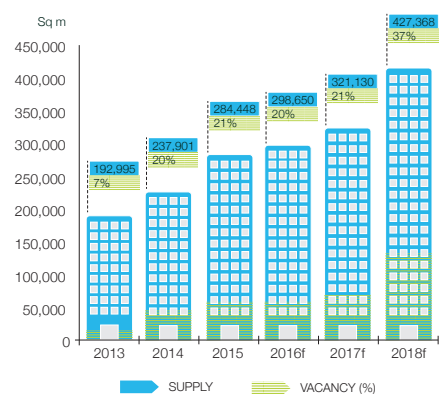
The most recent minimum wage increase of 9% to US\$140 in the garment sector left some stakeholders unsatisfied, while representatives of the garment

sector warn against factory closures if productivity and efficiency don't follow.

Finally, a new online business registration system, which will be available starting from 2016, is expected to boost registration of new companies by reducing processing time from 87 days to less than 6 hours, which could yield positive results for the office sector in the long-run.

FIGURE 4

### OFFICE SECTOR CUMULATIVE SUPPLY AND VACANCY BY YEAR



Source: Knight Frank Research

## KEY FINDINGS

Rental and occupancies remain relatively stable in 2H 2015

Parkson City Centre set to be fully operational by 2017

Cumulative supply expected to see a 204% increase by 2018

Phnom Penh's top 20% wealthiest population sees monthly disposable income rise to US\$423 in 2014, showing a y-o-y increase of 7.9%

# PHNOM PENH RETAIL SECTOR

Although traditional markets remain a popular shopping destination in Phnom Penh, increasing disposable income among the capital's top 20% wealthiest population could shift local preference towards more exclusive retail destinations.

## Supply and Demand

**A long waiting list of prospective tenants vying for a spot at Aeon Mall suggests that there is still room for additional prime retail stock**

With no new completions expected until 2017, the stock of available NLA remained at 134,154 sq m, with 62,040 sq m classified as prime space, as at 2H 2015.

Additional retail space of 273,938 sq m by 2019 is expected to bring the total NLA up to 408,092 sq m, increasing the supply by 204%.

2H 2015 saw the announcement of Aeon group's second mall in Phnom Penh, as well as Orkidé The Royal Condominium's launch, which will include 2 levels of retail podium. Both are set for completion in Sen Sok district and will

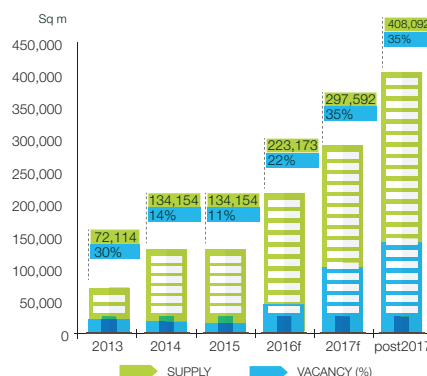
contribute a total of 110,500 sq m of NLA to the retail sector by 2018.

The future supply of retail space in Phnom Penh consists of 93% (255,119 sq m) prime NLA and 7% (18,819 sq m) secondary NLA. Central areas will see an addition of 99,105 sq m of NLA, while a total of 174,833 sq m will be added to the suburban stock with Aeropod, Parkson City Centre, and Aeon Mall 2 accounting for the bulk of the future supply. The total number of retail malls is expected to increase from 10 to 27 within the next 4 years, inclusive of standalone malls as well as retail podiums.

Parkson City Centre, Naga 2 and Exchange Square are currently in various stages of construction and are expected to add 92,900 sq m to the retail stock with Parkson City Centre and Naga 2 likely to reach completion in 2017.

Aeropod by the Lion Group, located across from the Phnom Penh international airport, is expected to complete by 2018. The 7-storey mall component of the mixed-use development will add 45,500 sq m of NLA to the retail stock.

FIGURE 5  
**RETAIL SECTOR SUPPLY AND VACANCY BY YEAR**



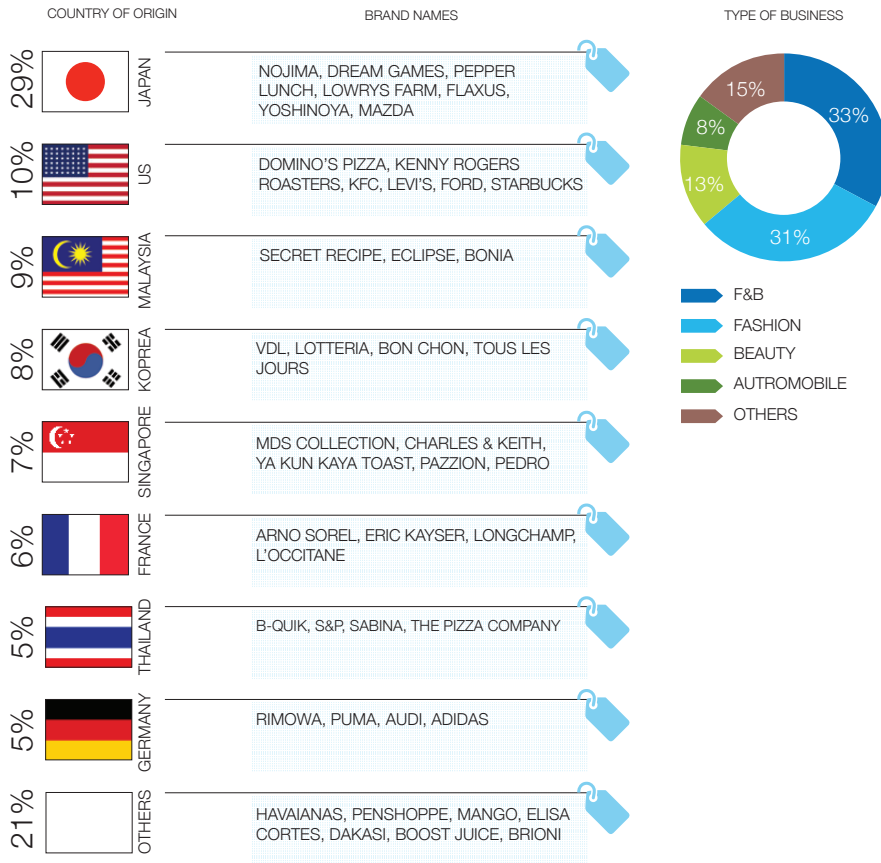
Source: Knight Frank Research

## Occupancy

**With no new retail openings in 2H 2015, retail malls across all grades continue to enjoy high occupancies and stable rent**

Average occupancies for prime grade retail malls have remained stable at above 95%, with Aeon commanding 100% occupancy throughout the year despite undergoing at least 15 turnovers since its opening. Overall retail space

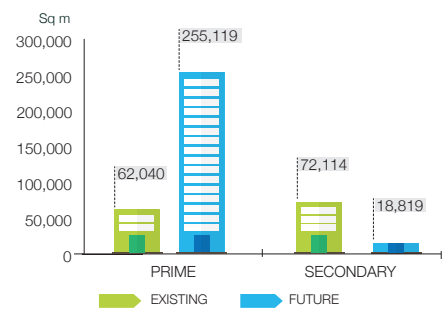
FIGURE 6  
INTERNATIONAL BRANDS IN CAMBODIA BY ORIGIN AND TYPE OF BUSINESS



second mall could be viewed as a sign of the group's confidence in the sector's future. While Parkson and Aeon target the same group of rising middle-income Cambodians, both are expected to bring their own following of brands into the country, which could delay any significant impact on occupancy across the prime retail sector at least in the short-term.

A newly released socio-economic survey conducted by the National Institute of Statistics (NIS) in 2014 shows a rising trend in the disposable income in the top 20 percentage of Phnom Penh's population. As at 2014, the figure was recorded at a monthly disposable income of US\$423, which shows an increase of 7.9% since 2013, and a more notable increase of 74% when compared to 2011. However it is important to note that the distribution of wealth is highly uneven in Cambodia, and that the majority of the population remains within low-income households.

FIGURE 7  
EXISTING SUPPLY vs. FUTURE SUPPLY OF RETAIL SPACE BY CLASSIFICATION (2015 - 2019f)



Source: Knight Frank Research

Source: Knight Frank Research

occupancy reached 90% as at 4Q 2015, showing an increase of four percentage points since 2Q 2015.

Although a large proportion of Aeon Mall's tenants are Japanese, the mall houses a healthy mix of popular international brands coming from countries such as the US, Malaysia, Korea and Singapore.

## Prices and Rental

Rental prices remained stable for the second half of the year, with no significant movements in demand

The opening of Aeon mall, Cambodia's first prime retail mall, has led to a number of the first generation malls to undergo rebranding and renovation works, with some having to reduce their rental prices to maintain occupancy.

Current base rents for prime retail space range from US\$32 to US\$70 per sq m per month, in addition to 10% to 25% of the tenant's monthly sales.

## Retail Sector Outlook

Only 3 out of 16 projects that are being monitored are standalone malls, while the remainder of the future retail space will be incorporated into large mixed use developments.

Prime retail continues to enjoy good occupancy despite the steady turnover of tenants with more accessible brands replacing the high-end brands that initially tenanted the mall's units upon opening. Although many have expressed concerns of a potential oversupply in the retail sector especially with Parkson City Centre nearing completion on Russian Boulevard, Aeon Group's announcement of their

## KEY FINDINGS

Between 1Q 2015 and 3Q 2015 international tourist arrivals increased by 4.6% to 3.35 million compared with the corresponding period in 2014

Three, five star luxury hotel operators are set to enter the Phnom Penh market

Japanese Hotelier, Toyoko Inn, opened one of Phnom Penh's first regionally branded three star hotels

Increasing scheduled flights from destinations within Asia has led to growing demand for hotel assets, particularly in the coastal region of Sihanoukville

# PHNOM PENH HOTEL SECTOR

As with most sectors of the Phnom Penh real estate market, the hotel sector is at a nascent stage in its development and the existing supply is dominated by independently owned and operated hotels and guest houses that are typically three star rated and below, although the landscape is changing rapidly.

## Supply and Demand

With Cambodia traditionally being associated as a back-packer destination, the Phnom Penh existing supply comprises mainly guest houses and boutique hotels

Whilst the tourism sector in Cambodia has grown rapidly during the past decade, recording year on year (y-o-y) growth in tourist arrivals since 2004, the majority of tourists originate from neighbouring countries including Vietnam, Thailand and Lao PDR, in addition to back-packers from the West, a large percentage of which are low value tourists seeking budget accommodation.

As a result, there are currently only three internationally branded, five star hotels operating in Phnom Penh. This can be largely attributed to a lack of historical

demand for this type of product and, as a result, the relatively low revenue per available room (RevPAR).

For the purposes of our research, we track hotels with fifty rooms and above. Figure 9 below illustrates the cumulative supply trend between 2009 and post 2018; it is evident that there was limited development between 2009 and 2015, in part due to the global financial crisis but also the dynamics of the hotel market in Phnom Penh and Cambodia.

The existing supply as at the end of 2H 2015 was recorded at 6,484 keys distributed across 48 hotels. It is only now that the market is really starting to open up illustrated by the completion of an additional 2,627 keys during 2015, including the five star Sokha Hotel and three star Toyoko Inn.

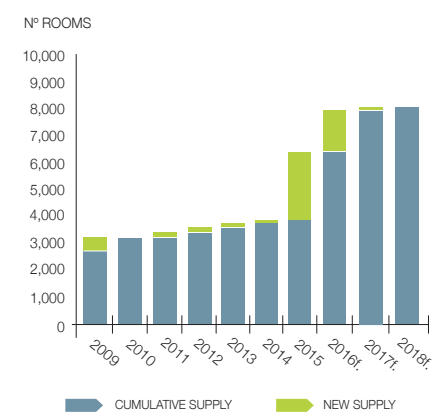
An additional 2,482 hotel rooms have been identified within the development pipeline, the majority (62%, 1,544 rooms)

FIGURE 8  
CAMBODIA TOURISM ARRIVALS AND RECEIPTS BY YEAR



Source: Knight Frank Research, Ministry of Tourism

FIGURE 9  
CUMULATIVE SUPPLY OF HOTEL ROOMS IN PHNOM PENH (2009 -2018f)



Source: Knight Frank Research



of which are scheduled for completion in 2016 including the opening of the 175 key, five star Rosewood Hotel within the top floors of Vattanac Capital Tower and also an additional 1,000 keys at Phnom Penh's only casino, Nagaworld.

Two recently launched development projects, 'The Bay' and 'The Peak', both being undertaken on a joint venture basis with Cambodian and Singaporean developers, have announced the signing of a Memorandum of Understanding with the Okura Prestige and Shangri-La respectively, signalling the entry of two additional internationally branded five star luxury hotels, however, these are not due for completion until after 2018.

## Occupancy rates and room rates

Whilst there has been a limited supply of five star hotels during the past five years, occupancy rates have generally remained below 50% as can be seen in Figure 10.

This is largely due to the fact that there is limited domestic demand for five star accommodation, which has impacted on both occupancy rates and average daily rates (ADR), with up to 95% of hotel guests in five star hotels being foreign.

With the number of five star hotel rooms set to almost double in 2016, and with the entry of the Okura Prestige and Shangri-La hotels post 2018, we expect the luxury hotel segment to become more competitive over the short to medium term until domestic demand catches up with supply.

## Hotel sector outlook

With the opening up of the aviation industry in Cambodia and the entry of several new airline carriers, with an ever increasing number of routes, in addition to improvements in infrastructure between the major tourist destinations of Siem Reap, Phnom Penh and Sihanoukville, there is significant medium to long term potential in the Cambodian tourism sector.

During the past decade, Cambodia has been perceived as more of a 'stop off' destination whilst visiting the temples of Angkor Wat as opposed to a destination in its own right. With the ongoing improvements in infrastructure, and with the promotion of Cambodia by key stakeholders, the Kingdom has the tourism offerings to become a destination in its own right, with tourists able to see the temples of Angkor Wat in Siem Reap, spend a few days in the bustling capital of Phnom Penh and then head to the islands off the southern coast to finish off with a relaxing beach holiday.

Figure 11 illustrates the typical stages of the evolution of a hotel market. Whilst

Siem Reap is at a more advanced stage compared with other areas of Cambodia, Phnom Penh and Sihanoukville are currently at Stage 2. However, there are several projects in the development pipeline that will soon propel Phnom Penh into the next stage of evolution.

Furthermore, whilst there is a plethora of guest houses and boutique hotels, in addition to several five star hotels, there is currently a gap in the market for internationally branded, four star, business hotels which is lacking in Phnom Penh. As more international companies set up operation in Cambodia, we have identified a growing need for business class hotels to cater to middle management and executives and we see this as a growth area over the medium term.

FIGURE 10  
ADR RevPAR AND OCCUPANCY DATA FOR 5 STAR HOTELS IN PHNOM PENH



Source: Knight Frank Research

FIGURE 11  
TYPICAL STAGES OF THE EVOLUTION OF A HOTEL MARKET

| Stage   | Summary of Evolution  |
|---------|---|
| Stage 1 | Existence of locally-branded hotels, guesthouses and backpackers' lodgings. Visitor arrivals consist primarily of domestic tourists.  |
| Stage 2 | The entry of international or regional branded hotels with the proportion of international tourist arrivals increasing.   |
| Stage 3 | Development of major integrated resorts and/or masterplan enclaves in conjunction with the development of other tourism facilities such as a convention centre or golf courses.                 |
| Stage 4 | Establishment of resort destination and gaining of international recognition supported by more diversified tourism products such as sale and leaseback residential villas or iconic properties. |

## KEY FINDINGS

Nearly half of existing serviced apartments are located in Chamkarmon, which caters predominantly to the expat population

Under Ascott, the Somerset brand will be managing part of the Skylar Meridian project, due for completion in 2018

Completions of large condominium developments starting from 2017 likely to apply downward pressure on rental prices

Serviced apartment stock is expected to increase by 52% within the next 2 years

# PHNOM PENH SERVICED APARTMENT SECTOR

The majority of serviced apartments are historically developed and managed by locals, and it is only recently that there has been interest from international players which has highlighted the need for more professional serviced apartment operators.

## Supply and Demand

Many existing serviced apartments in central locations cater to the high-end sector with foreigners comprising the majority of the current market demand

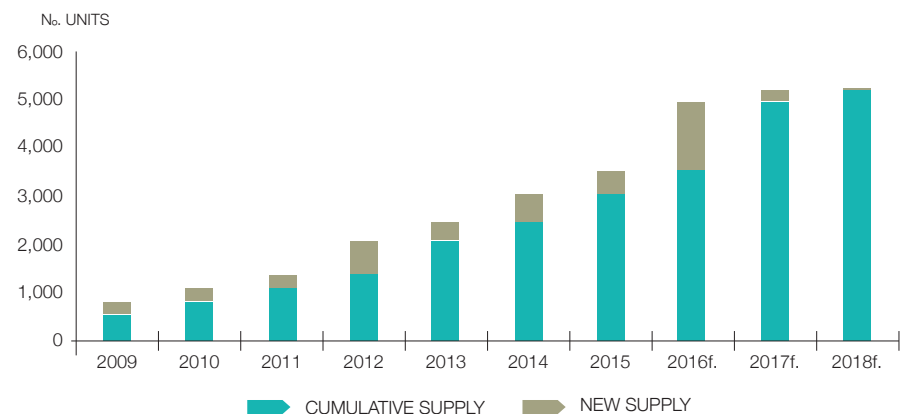
Serviced apartments have been a popular choice of residence for expatriates residing in Phnom Penh since the first influx of foreign workers arrived. Serviced apartments are largely similar to condominiums in terms of the facilities they offer such as security, pools and gyms, but also provide additional services such as housekeeping similar to hotels. For the purposes of this report, we will refer to residential units that are available for rent and for sale as condominiums, while those that are only available for rent as serviced apartments.

Historically, serviced apartments in Phnom Penh have been owned by local landlords, are typically no more than 10 stories high and offer less than 50 units. Only recently have larger developments such as Skyline, Silvertown Metropolitan and Maline apartments become available. Due to the scale of most existing serviced apartments, serviced apartments tend to be managed by smaller, often non-branded property management teams.

It was only recently with the launch of Skylar, a 289-unit condominium project in Chamkarmon, that the sector saw its first international serviced apartment operator enter the market. Under the management of Ascott Limited, the Somerset brand will manage 44% of Skylar's units through a leaseback program, which buyers automatically sign up for upon purchase of units within the 9 levels of the allocated serviced apartment section of the building.

FIGURE 12

### CUMULATIVE SUPPLY OF SERVICED APARTMENTS IN PHNOM PENH (2009 -2018f)



Source: Knight Frank Research

There are currently 3,535 serviced apartment units in Phnom Penh, with 1,832 units expected to become available by 2018 increasing the supply by 52% within the next two years, comprising mainly small and mid-sized projects.

As at 4Q 2015, 47% of serviced apartments were located in the district of Chamkarmon, 20% in Daun Penh, 10% in Toul Kork, a further 10% in Chroy Changva, and 8% in 7 Makara with the rest located in Sen Sok and Meanchey districts.

Nearly 60% of the properties we were able to monitor are categorised as high-end, 32% are mid-tier units, while only 8% target the mass-market.

## Prices and Rental

Rental prices have remained relatively stable, showing a marginal decrease in 4Q 2015 compared to prices in 1Q 2015

As at 4Q 2015, average rental prices in monitored high-end developments ranged from US\$1,194 per month to US\$3,233 per month, with the higher rates applying to centrally located buildings. When compared to rental rates in 1Q 2015, the lower range showed an 18% increase while the upper range decreased by almost the same amount.

Rental prices may include water and internet usage, as well as management fees, while bills for other utilities such as electricity are paid by the tenants.

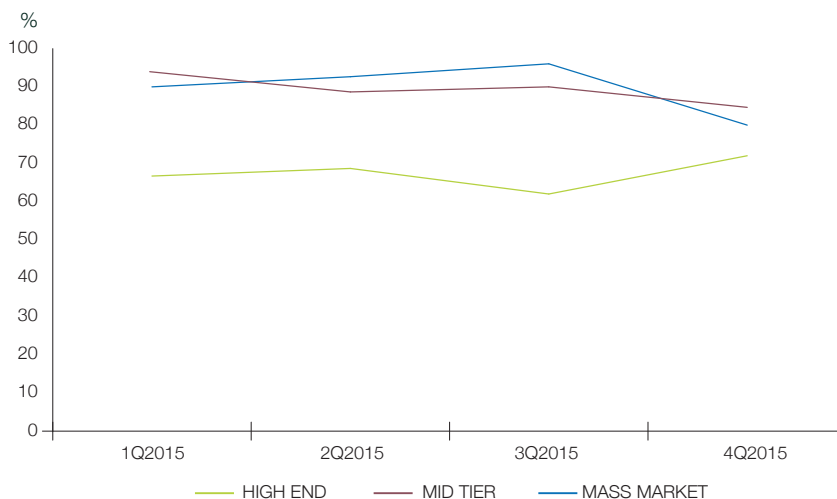
## Occupancy

Foreigners continue to be the main occupiers for serviced apartments with the majority of the local population still preferring to live in landed housing

The serviced apartment sector has seen a steady increase in occupancy, with high-end buildings able to achieve an average of 67% in 2H 2015, as occupancies in recently completed buildings began to pick up.

Chamkarmon and Daun Penh districts remain popular areas for expatriates, and continue to command the highest occupancies.

FIGURE 13  
**QUARTERLY AVERAGE OCCUPANCY FOR THE SERVICED APARTMENT SECTOR BY CATEGORY**



Source: Knight Frank Research

With most Cambodians still preferring to live in landed developments, foreigners still make up the majority of tenants in serviced apartments.

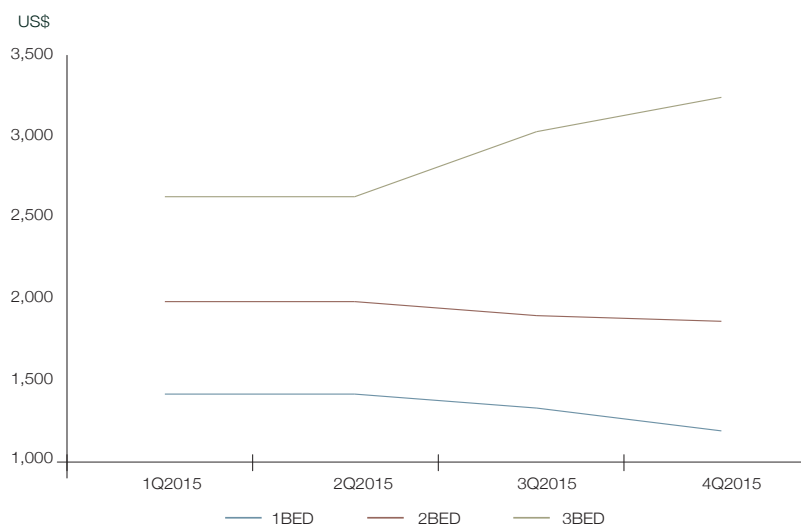
## Serviced Apartment Sector Outlook

While there is no threat of oversupply in the serviced apartment sector, occupancy and rental prices are sure to be impacted by the sudden rise in condominium units within the next few years.

A sudden increase in the volume of units that will become available for rent starting from 2016 could potentially see occupancies drop across the high-end and mid-tier units, with the bulk of the future condominium supply expected to fall within these categories.

Current occupancy rates indicate that the supply is still higher than the demand, with no expectations of a significant demand growth in the short to medium-term. Without the prospect of demand growth, rental growth is also going to be limited with rental prices likely to undergo a downward correction.

FIGURE 14  
**QUARTERLY AVERAGE RENTAL PRICE FOR HIGH-END UNITS BY UNIT TYPE**



Source: Knight Frank Research

## KEY FINDINGS

**56 developments are scheduled for completion by 2020**

**Condominium stock is expected to increase by approximately 641% within the next 4 years**

**The majority of launched projects have focused their marketing outside of Cambodia due to higher investor interest overseas**

**Selling prices continue on an upward trend, and have reached levels above US\$ 5,000 per sq m**

# PHNOM PENH CONDOMINIUM SECTOR

Despite its relatively recent introduction into Phnom Penh's residential market, the condominium sector has developed rapidly with approximately 18,200 units currently in the pipeline set to enter the market within the next 4 years.

## Supply and Demand

**Quality continues to improve with each new development, as developers vie for purchasers in an increasingly competitive market**

Phnom Penh's residential sector has been evolving rapidly since the end of the economic downturn in 2009. Central locations which were once dominated by low-rise apartments for rent, villas and shophouses are now dotted with mid-to-high rise projects undergoing construction.

Recent years have seen a significant shift from low-rise projects by local landowners comprising no more than 30 units for rent, to much larger condominiums, comprising hundreds of units for sale typically developed through joint ventures between international developers and local landowners.

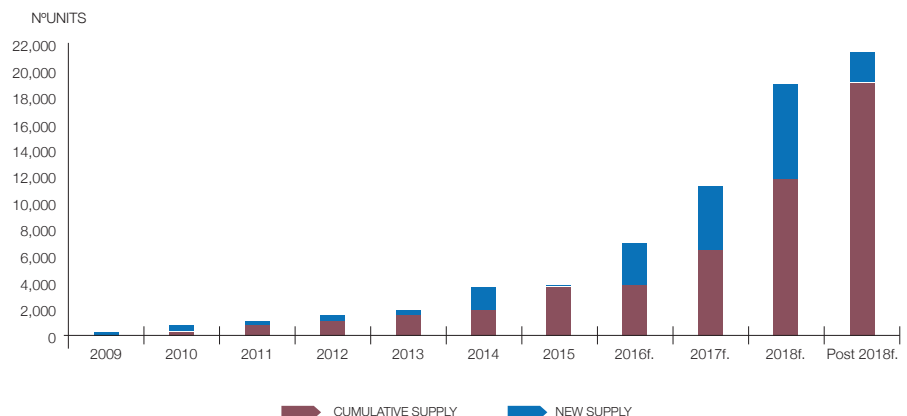
During Phnom Penh's recovery period, between 2009 and 2010, the first generation of low-to-mid rise condominiums entered the market with a total of 732 condominium units for sale. These developments are best described as practical, with basic designs, facilities and management services. 13 additional condominium projects have completed since, bringing the total to 2,836 units as at 4Q 2015.

The second wave of completions between 2013 and 2014 saw bigger entrants such as the Overseas Cambodia Investment Corporation contributing 4 blocks of 28-storey buildings, offering much larger units. In 2014, De Castle Royal, which was planned for completion in 2010, added a further 414 units, setting new market standards in design and overall quality.

Existing condominiums in Phnom Penh fall within the high-end or the

FIGURE 15

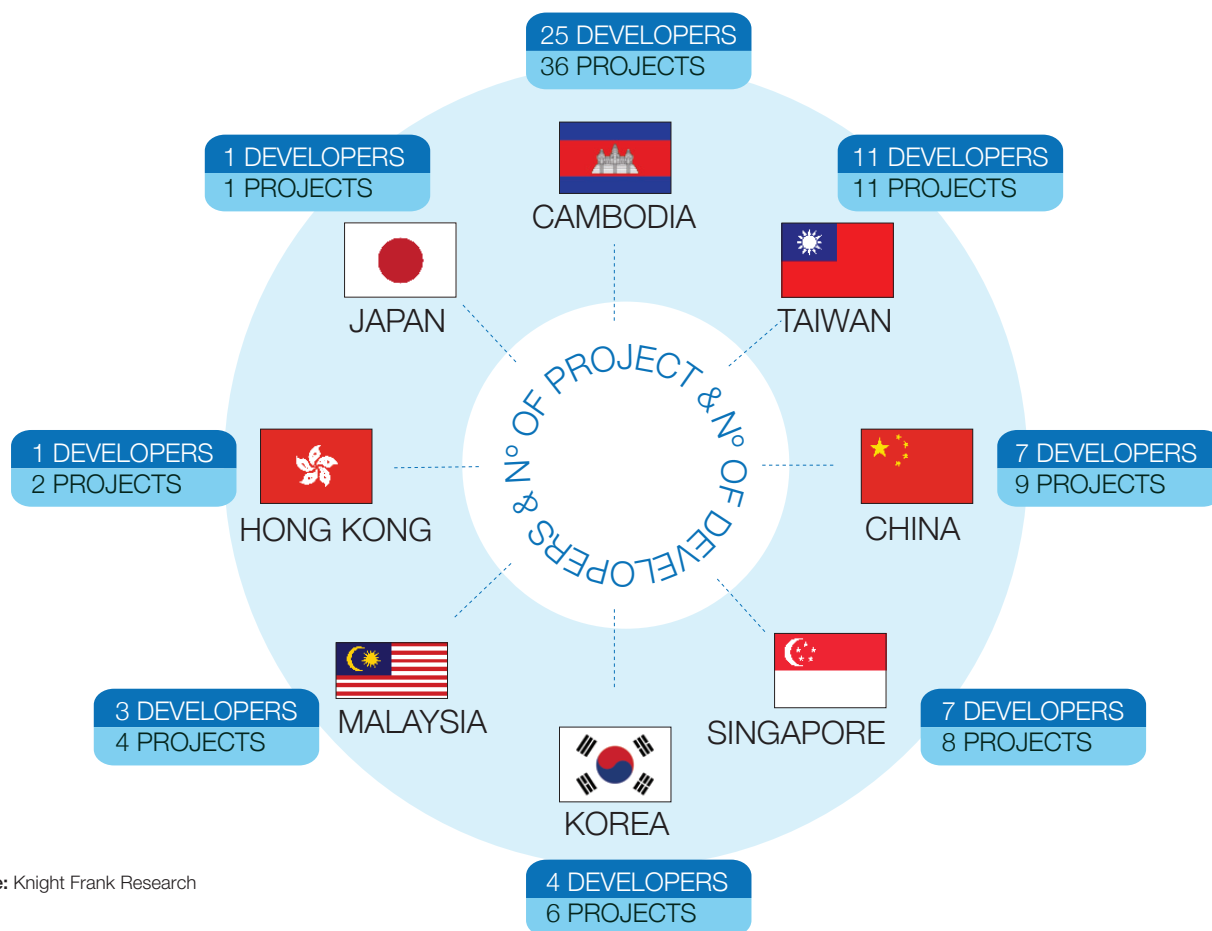
### CUMULATIVE SUPPLY OF CONDOMINIUMS IN PHNOM PENH (2009 -2018f.)



Source: Knight Frank Research

FIGURE 16

DEVELOPMENTS AND DEVELOPERS IN CAMBODIA BY COUNTRY OF ORIGIN



Source: Knight Frank Research

mid-tier classifications, which are categorised based on their selling price, which reflects all other attributes of the development such as location, accessibility, design, management standards and overall quality. 14 of the existing condominiums in Phnom Penh fall under the mid-tier category, which comprises 82% of the total existing units in Phnom Penh.

11 condominium developments were launched in 2H 2015, ranging in size from the 55-unit North Park by Northbridge Communities, to the Mansion House by Prince Real Estate, which will add 1,768 units to the existing stock.

Assuming that all future projects complete as scheduled, the future stock is expected to increase by 641% within the next 4 years. Approximately half of which will be located in the district of Chamkarmon, which remains the most attractive district for developers planning to build residential projects.

Increasing competition due to a large future supply has resulted in an improvement of each newly launched development. Developers are setting higher standards by putting more emphasis on exterior and interior design, build quality, and closer adherence to international standards. In anticipation of an oversupply situation, most are offering incentives in the form of upfront discounts, timed promotions, furniture packages, and guaranteed rental returns.

There are growing concerns about a potential oversupply in the near future with many anticipating supply to quickly outpace demand. This can be attributed mainly to limited local market demand coming from high-net-worth individuals and expatriates living in Cambodia, which has forced many developers to target the overseas market.

Taiwanese, Chinese, Singaporeans, Japanese and Malaysians are some of the main overseas investors buying the

majority of residential units. However, more and more developers are building for the lower mid-tier sector, which has attracted more local buyers.

## Prices and Rental

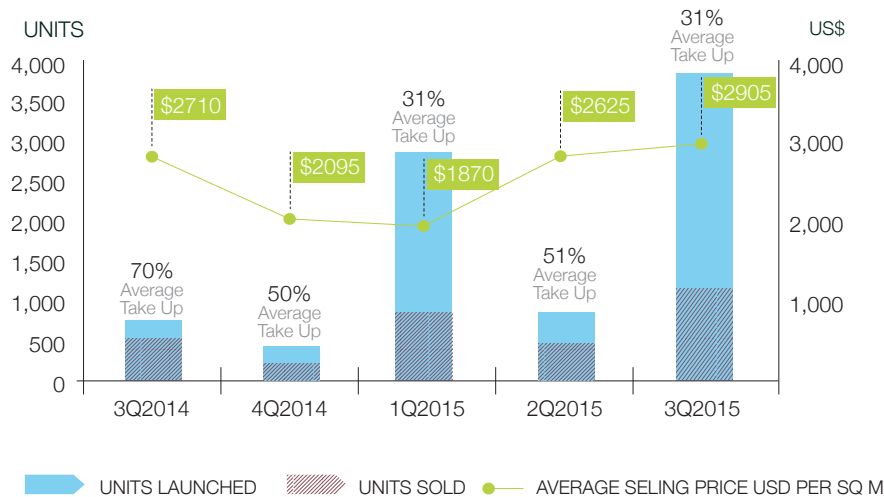
### Prices of condominium units have climbed dramatically and may have reached their peak with the recent launch of a few large developments

Developments located in suburban areas with the exception of a few such as The Bay and La Vie, are still selling below US\$ 2,000 per sq m on average. However, asking prices for high-end units in central locations have surpassed US\$3,000 per sq m with some high-end penthouse units already priced at US\$5,000 per sq m.

High-end condominiums for rent, which are currently only found in Chamkarmon district, command rental prices from

FIGURE 17

**SALES OF NEWLY LAUNCHED CONDOMINIUM UNITS BY QUARTER**



Source: Knight Frank Research

US\$1,375 to US\$4,500 for one to four bedroom units as at 4Q 2015, which shows an overall decrease of approximately 6% when compared to asking rental prices in 1Q 2015.

**Occupancy**

**Occupancy in the condominium sector is predicted to experience intense downward pressure due to steep competition from 2017 onwards**

The majority of existing condominium units are occupied by foreign tenants who tend to choose condominiums over landed housing for security, facilities, and other conveniences. Locals occupy a small percentage of condominium units, with most purchasing units for investment purposes, while choosing to live in more spacious villas or other landed residential accommodation.

Notwithstanding the limited local demand, 72% of high-end units are currently occupied.

**Condominium Sector Outlook**

A decrease in future launches can be expected given the threat of oversupply in the near future.

Other factors that could result in a slowdown in the sector are the upcoming general elections in 2018, as well as stricter building regulations that will be largely determined by the master plan, and its enforcement.

Going forward, the majority of units in most developments are still expected to be sold to overseas investors in the short-term despite a reported increasing disposable income among the top 20% wealthiest locals.

Selling prices are not likely to increase significantly, and have likely reached peak levels especially in high-end developments.

By 2018, when the majority of the future supply is expected to reach completion, rental prices in areas such as Chamkarmon, 7 Makara and Chroy Changva are anticipated to experience a downward correction. However, the situation is expected to improve in the long-term as land becomes scarce around the city, which will encourage upward expansion, coupled with a slowly shifting lifestyle pioneered by the younger generations of Cambodians returning from overseas, which will in turn boost occupancy in the condominium sector.



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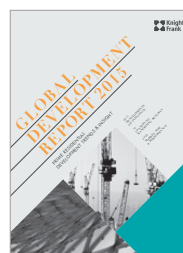
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