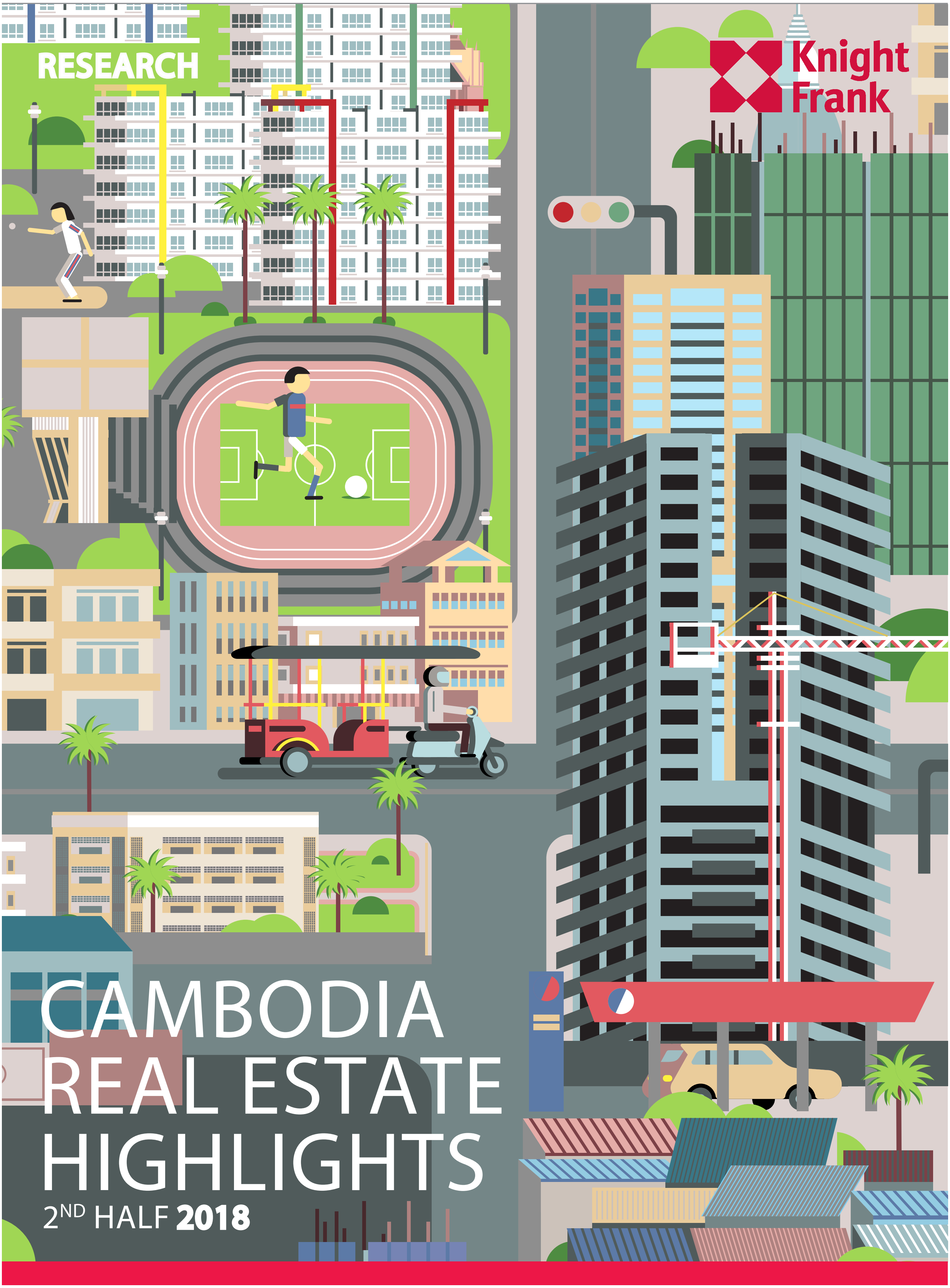


CAMBODIA REAL ESTATE HIGHLIGHTS

2ND HALF **2018**

ECONOMIC SNAPSHOT | COMMERCIAL SECTOR | RESIDENTIAL SECTOR

ECONOMIC SNAPSHOT

As with the commune elections held in 2017, the General Election in July 2018 came and went without much fanfare, however, market activity continued to moderate during H2 2018

ROSS WHEBLE
Country Head

"In contrast to industry expectations, where it was anticipated that market activity would moderate during the run up to the election and pick up momentum during the second half of the year, market activity remained subdued during H2 2018"

In contrast to industry expectations, where it was anticipated that market activity would moderate during the run up to the election and pick up momentum during the second half of the year, market activity remained subdued during H2 2018.

According to the Ministry of Land Management, Urban Planning and Construction, a total of US$5.2 billion was invested in Cambodia's construction during 2018, compared with US$6.4 billion during 2017, a Y-o-Y decline of 18.8% (figure 1).

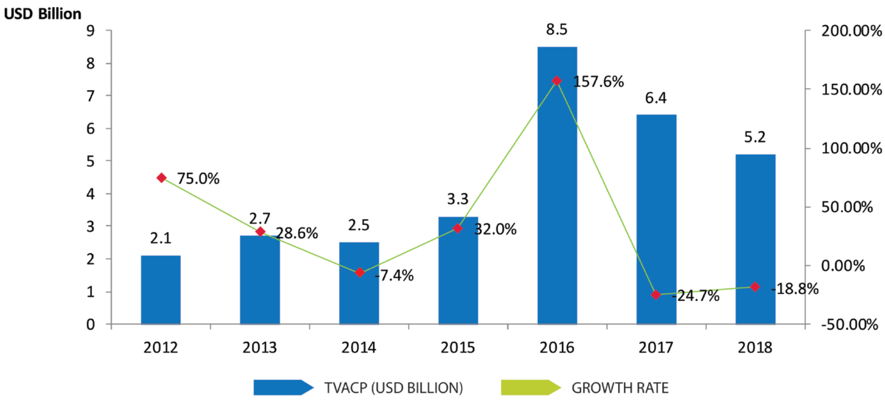
This can be attributed to a number of key factors, including the wider global economic and geopolitical climate, a moderation in China's economic growth as well as the European Union's (EU) move to start the process of withdrawing Cambodia from the Everything but Arms Agreement; an initiative under which all imports to the EU are duty-free and quota-free except for armaments.

The above notwithstanding, the outlook for 2019 remains optimistic, with growth forecasts from various world organisations hovering around 7%, underpinned by the continued diversification of Cambodia's economy as well as increasing disposable incomes driving domestic consumption.

We anticipate momentum in the real estate sector to gather pace during 2019, and will be keeping a close eye on both the hospitality and industrial sectors. As infrastructure and connectivity to Cambodia continues to improve, in addition to the low cost of labour, there was a noticeable increase in enquiries from multinational companies looking to set up operation in Cambodia despite the threat of further trade sanctions.

Additionally, tourism will play an increasingly important role in the growth of Cambodia's economy, with 2018 seeing the opening of several Luxury hotels and resorts including Rosewood Phnom Penh, Six Senses Koh Krabey and Alila Koh Russey, whilst Courtyard Marriott opened in both Phnom Penh and Siem Reap.

FIGURE 1
TOTAL VALUE OF APPROVED CONSTRUCTION PROJECTS (US$BILLION)



Source: Ministry of Land Management, Urban Planning and Construction, Knight Frank Research

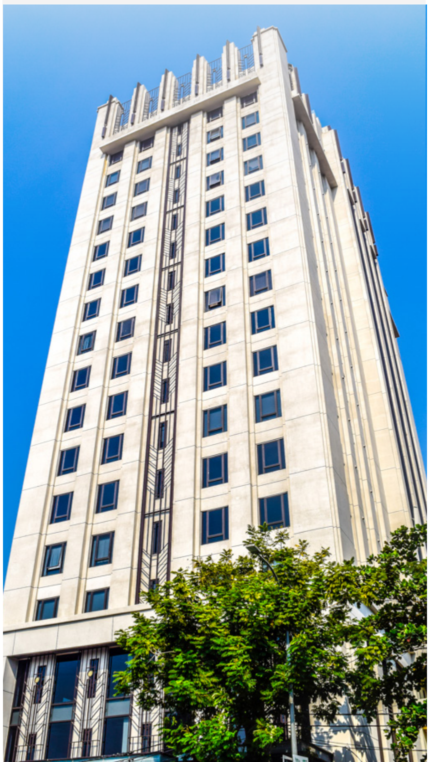
KEY FINDINGS

Phnom Penh's cumulative office supply stood at 417,257 sq m of net lettable area following the completion of H Silver, Keystone Building, E-Sun Tower, East Commercial Centre and TK Royal One, an increase of 40,068 sq m from H1 2018.

East Commercial Centre (15,389 sq m NLA) and TK Royal One (3,953 sq m NLA) are the first stratified office buildings sold to individual owners to come online in Phnom Penh.

Healthy occupancy rates in the office sector continued to attract developers to provide more prime grade office space. By post 2021, Phnom Penh will comprise 961,898 sq m NLA office space, doubling the existing supply.

The occupancy rate for Grade B offices topped the list during the second half of 2018 at 92%.



Keystone, Phnom Penh

PHNOM PENH OFFICE SECTOR

A 17% Y-o-Y surge (61,178 sq m net lettable area) of completed office space led to a decline in the average occupancy rate (both rental and strata-title office) to 87.1% during H2 2018.

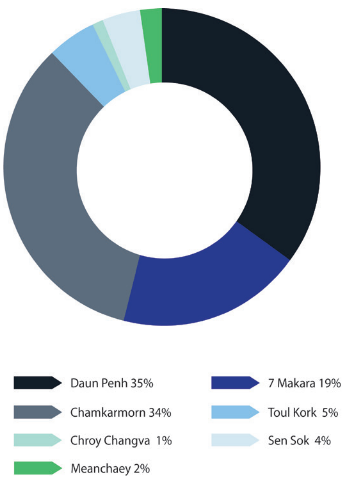
Supply and Demand

H2 2018 saw the completion of East Commercial Centre and TK Royal One, some of the first stratified office buildings in Cambodia.

As at H2 2018, office supply in Phnom Penh was recorded at 417,257 sq m of net lettable area (NLA), a y-o-y increase of 17% from H2 2017. Over the next three years, the supply is forecasted to increase by 131% to 961,898 sq m.

A total of 40,069 sq m of NLA office supply completed during H2 2018, attributed to 5 projects namely, H Silver, Keystone Building, E-Sun Tower, East Commercial Centre and TK Royal One. East Commercial Centre and TK Royal One are the first of a new wave of stratified office buildings to come online in Cambodia contributing a total of 19,243 sq m NLA to the existing supply.

FIGURE 2
EXISTING SUPPLY BY DISTRICT



Source: Knight Frank Research

Diamond Twin Tower and Star City, both comprising a total 35,457 sq m of NLA, originally slated for completion by 2018, rolled over into 2019.

Despite the addition of newly completed office buildings (mostly Grade B), Grade C still dominates the majority share of office supply representing 50% of the total supply, followed by Grade B at 37% and Grade A at 13%. As investors' appetite shifts from residential to commercial, developers are increasingly launching stratified office space for sale to investors.

8 additional projects were launched during H2 2018; namely Prince International Plaza, Royal One, Morgan Tower, GIA Tower, Sathapana Tower, OCIC Tower, TK Central and The Point, contributing an aggregate office supply of 244,974 sq m, out of which 143,300 sq m is stratified office offered for sale to individual owners. 29% of the new launches were Grade B whilst the remaining 71% were Grade A.

Over the next three years, the stock is forecasted to increase by an additional 544,641 sq m of NLA, if all the monitored projects are completed as scheduled.

Location wise, Daun Penh, being the CBD of Phnom Penh, remains the main focus for existing office supply at 35%, followed by Chamkarmon district at 34%. The rest are located at 7 Makara (19%), Toul Kork (5%), Sen Sok (4%), Meanchey (2%) and Chroy Changva (1%).

The first international standard strata-title offices completed during the second half of 2018.

H2 2018 saw the official opening of two newly completed strata-title office buildings. TK Royal One in Toul Kork was officiated in 3Q 2018 and is well received recording an occupancy rate of 86%.

Conversely, East Commercial Centre in Chamkarmon recorded an occupancy rate of 20%, largely due to it's very recent completion.

TK Royal One is a Grade B building providing 3,953 sq m NLA, whilst East Commercial Centre is a Grade C building providing 15,389 sq m NLA. Therefore, the aggregate supply of strata-title office stood at 19,342 sq m NLA as at H2 2018.

Future strata-title office supply to be dominated by Grade A space.

The current lack of supply of Grade A office space in Phnom Penh and the healthy occupancy rate has encouraged developers to tap into this segment of the office market.

In 2019, there will be a total of 40,348 sq m coming online with an additional 33,176 sq m by 2020. 2021 and post 2021 will see a further 232,129 sq m NLA Grade A strata-title office enter the supply if all projects are completed within their anticipated timeframe.

Between 2019 and Post 2021, an additional 544,641 sq m NLA of office space across all grades is scheduled to complete, out of which 355,313 sq m is contributed by strata-title offices. Grade A offices will be the major contributor with 423,307 sq m NLA followed by Grade B providing a total 121,334 sq m NLA.

Overall occupancy rate for both rent and strata-title offices saw a slight decline during H2 2018.

With 70,253 sq m of office space entering the existing supply since Q4 2017, the overall occupancy rate recorded a slight decline of 0.4 percentage points to 87.1% as at the end of H2 2018.

By grade, the occupancy rate for Grade B offices topped the list at 92.1%, however, this represented a 3.9 percentage point decline from H1 2018.

The occupancy rate for Grade C offices declined from 87.4% to 86.1% in H2 2018, largely due to the very recent addition of East Commercial Centre.

Grade A office occupancy increased to 76.7%, a 3.3 percentage point increase from H1 2018.

There were no new Grade A offices completed in H2 2018, and the existing supply comprises Vattanac Capital and Exchange Square in the CBD area of Phnom Penh.

Prices and Rental

With the introduction of strata-title offices, our monitored stock and rentals include asking rentals from individual owners of office space placed on the market for lease.

Rentals for Grade A and C offices remained flat in H2 2018, ranging between US$28 to US$40 per sq m per month and US$9 to US$18, respectively (excluding service charges and tax).

The newly completed Grade C office, H Silver Tower in Meanchey district, contributing a total NLA of 3,850 sq m had an asking rental ranging from US$13 to US$14 per sq m per month.

Underpinned by growing demand, Grade B offices registered a slight increment in asking rents over H1 2018. Asking rentals ranged between US$18 to US$29 per sq m per month.

Prices of newly launched stratified office units ranged from US$3,000 to as high as US$5,000 per sq m of the NLA for Grade A and B units.

Office Sector Outlook

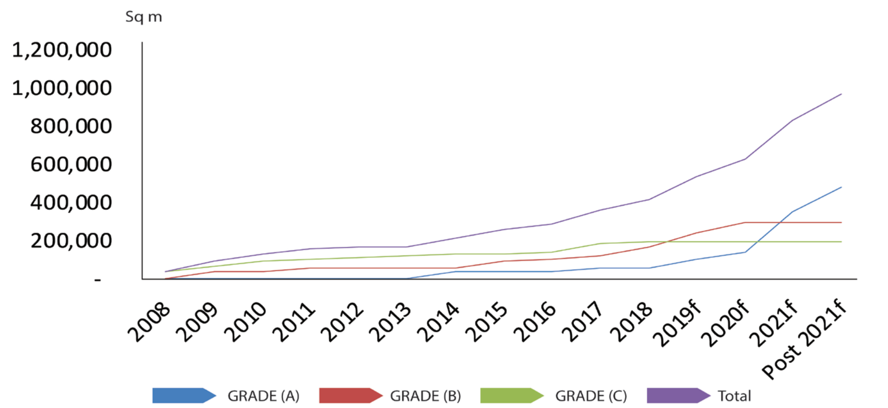
Outlook for Grade B offices remains promising due to growing demand from SMEs in Phnom Penh.

In addition to the growing number of foreign companies entering Cambodia, underpinned by FDI across a number of different industries, one the fastest growing sources of demand for office space in Phnom Penh is from Cambodia's fledgling SME sector, which is a good sign for Cambodia's economy.

For smaller startup businesses, new Grade B and C office buildings will be the preferred choice due to the more affordable asking rentals compared with Grade A offices. However, office facilities remain essential across all grades, with a particular emphasis on parking spaces in a tenant's consideration for office space.

Landlords of old and out-of-trend Grade C office buildings will need to plan for a revamp if they are looking to maintain or capture more market share, and the global trend office demand shifting toward co-working space continues unabated.

FIGURE 3
CUMULATIVE SUPPLY BY YEAR



Source: Knight Frank Research

KEY FINDINGS

Existing retail supply increased to 267,505 sq m in H2 2018 as two new projects completed, namely The Park and The Bridge.

An estimated 567,657 sq m of retail NLA is scheduled to come online by 2021, taking the total retail supply to 835,162 sq m, an increase of 212%.

Four major landed housing projects constructed by Cambodia's leading developers introduced retail malls to be operated in-house.

The average occupancy rate declined to 88.9% during H2 2018, a Y-o-Y decrease of 2.2 percentage points.

Market demand for retail space in Phnom Penh was underpinned by an influx of international brands. Reebok, a well-known sports wear brand, opened its first outlet in Phnom Penh in H2 2018.

The Phnom Penh retail sector may potentially face a supply glut situation over the next two to three years, leading to downwards pressure on rental rates and a rise in vacancy rates.


The Bridge, Phnom Penh

PHNOM PENH RETAIL SECTOR

The Retail sector continues to be dominated by the Food & Beverage and Entertainment industries, whilst an increasing number of community malls were launched and will comprise a market share of 22.3% of the total retail supply by 2022.

Supply and Demand

As at H2 2018, Phnom Penh's retail supply was recorded at 267,505 sq m of net lettable area (NLA) as a result of the newly opened The Park Community Mall and The Bridge (a strata-title retail podium).

The two new projects; namely The Park Community Mall and The Bridge, contributed an additional 10,000 sq m (NLA) and 6,200 sq m (NLA), respectively.

Overall, 2018 saw the largest increase in retail supply ever recorded in Cambodia. The completion of Eden Garden and Aeon Mall Sen Sok City (both H1 2018), The Park and The Bridge Community Mall (H2 2018) cumulatively contributed to a 53% (197,156 sq m NLA) Y-o-Y growth in the existing supply.

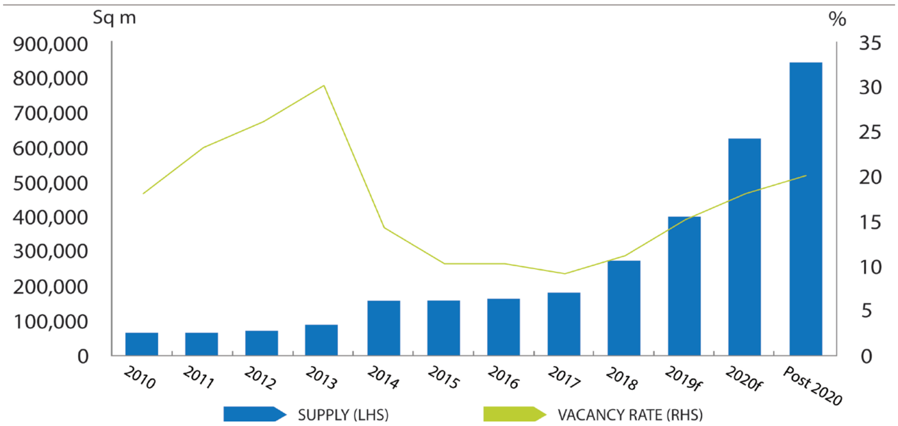
Four on-going projects scheduled for completion at the end of 2018 rolled over into 2019, including the long anticipated Phnom Penh Mega Mall (formerly known as Parkson Mall).

Phnom Penh's cumulative retail supply will more than triple to 835,162 sq m of NLA by 2022 if all monitored and launched projects are completed as scheduled. This equates to an additional 567,657 sq m NLA, an increase of 212%.

One of the most notable launches during H2 2018 was Prince International Plaza which, upon completion, will comprise 120,000 sq m of NLA.

To enhance the marketability of new housing projects, as well as establishing domestic retail operator brands to rival Aeon, local housing developers are increasingly introducing neighbourhood and regional shopping malls within their projects, which is also a trend being witnessed globally as consumers look for convenience.

FIGURE 4
PHNOM PENH SUPPLY AND DEMAND OF RETAIL SPACE



Source: Knight Frank Research

Chip Mong Group, one of Cambodia's largest conglomerates, launched Chip Mong Sen Sok City and Chip Mong Mega Mall 271, both slated for completion in 2020, comprising 24,000 sq m of NLA and 58,000 sq m of NLA, respectively.

Another of Cambodia's leading developers, Peng Huoth, also launched PH Eco Mall within Peng Huoth the Star Platinum in Chbar Ampov and PH Diamond Plaza located along Hun Sen Blvd within ING satellite city. PH Eco Mall and PH Diamond Plaza will contribute 50,000 sq m of NLA and 12,000 sq m of NLA, respectively, and both are located within landed housing projects.

The occupancy rate for prime shopping malls saw a marginal Y-o-Y drop of 2 percentage point to 96%, due to the opening of AEON Sen Sok City.

Secondary retail malls faired worse and the occupancy was recorded at 79%, a 6 percentage point Y-o-Y decline.

The Bridge, being the first strata-title retail mall to come online, achieved a healthy net absorption, recording an occupancy rate of approximately 60%.

As a result, the average occupancy rate across all segments declined by 2.2 percentage points to 88.9%. Our forecast shows that this decline is set to continue due to an additional 127,726 sq m of NLA due for completion by 2020, largely contributed by community malls and open air concept malls.

Number of Projects and Supply Percentage by Types of General-Purpose Retail

Types	% Supply	No. Projects
Neighborhood 2,000 - 20,000sq m NLA	22%	29
Sub-Regional 20,000 - 50,000sq m NLA	19%	5
Regional 50,000 - 75,000sq m NLA	44%	6
Super - Regional 75,000 - 140,000sq m NLA	15%	1

Source: Knight Frank Research

With Cambodia's economy continuing to record strong growth and with a favourable demographic, we are seeing increasing demand from international retailers looking to tap into the growing consumerism in the Kingdom. 2018 saw the entrance of Reebok, a major sportswear apparel brand originating from the UK, opening its first outlet in Phnom Penh along Sihanouk Boulevard. Roberto Cavalli, a high-end fashion label another apparel brand originating from Italy, also opened its doors officially during H2 2018 in Vattanac Capital retail podium.

Within the Food & Beverages segment, brands such as Koondak (Korea), Oh My Cheese (Thailand) and Platoza began operations in 2018 whilst Heekcaa (Taiwan) expanded with their third branch in The Bridge.

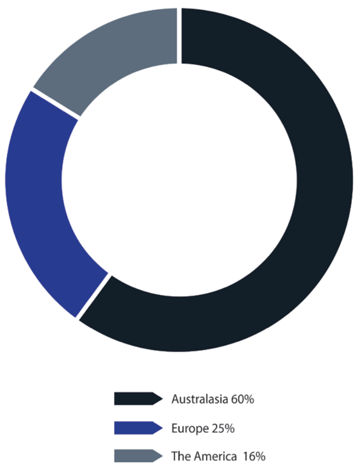
Price and Rental

Despite the sharp increase in the supply of retail space during 2018, rental rates remained stable as a result of the growing number of retailers entering the market.

As at H2 2018, average asking rents for retail units (below 100 sq m) remained stable within prime shopping centres.

Average rents for secondary retail space also remained flat at US$18 per sq m per month.

International Retailers by Region of Origin



Source: Knight Frank Research

Retail Sector Outlook

Neighbourhood Malls will dominate in 2019 with several developments due for completion by 2020.

As defined by the International Council of Shopping Centres, Neighbourhood Malls typically offer a net lettable area (NLA) of between 2,000 sq m to 20,000 sq m. They are typically anchored by supermarkets and complemented by food & beverage, apparel and entertainment retailers, with the core focus being on convenience.

Of note, the former Parkson City Centre mall located along Russian Bolevard, has been rebranded as Phnom Penh Mega Mall as a result of Parkson's withdrawal from the project, and is expected to open its doors in 2019.

In line with the growth of Phnom Penh's average household disposable income and population, we expect to see additional foreign retail brands entering the market, increasing the retail offerings for consumers.

Cambodia's dynamic retail landscape transformation has also triggered the rapid growth of supermarkets and grocery chains, both domestic and international chains. Key retailers in Phnom Penh include Lucky Supermarket, Aeon Mall Maxvalue, Circle K, Bayon supermarket and Super Duper. Super Duper, with its first branch opened in Boeng Trabaek some years ago, has recently expanded with a new branch in Daun Penh.

Leading Cambodian conglomerate, Chip Mong Group, has also ventured into this growing market, opening its first convenience store, Chip Mong Supermarket, along Monivong Boulevard in BKK1.

Assuming all monitored projects in the pipeline come online as scheduled, Phnom Penh retail space will increase by 212% and may face an oversupply situation by 2021.

In view of the incoming supply, retail rents and occupancy rates are likely to face downwards pressure over the medium term.

KEY FINDINGS

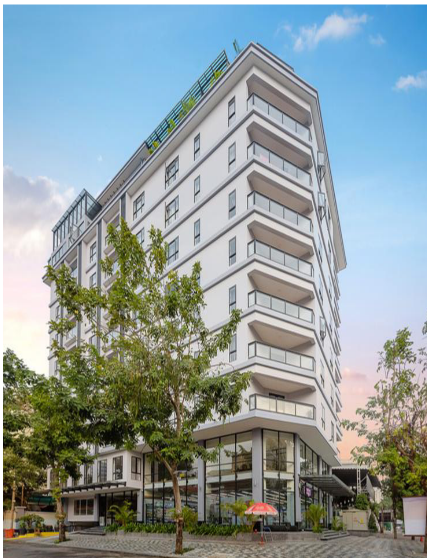
257 units were added during H2 2018, bringing the total existing supply to 5,307 units.

A further 935 units are expected to complete by 2020, reflecting an increase of 18%.

The majority of serviced apartment buildings are still concentrated in Chamkarmon District, representing 55% of the existing stock.

With the supply of condominiums increasing by more than 100% in 2018, rental rates for high-end and mid-tier serviced apartments recorded a slight decrease and will face further downward pressure over the short and medium term.

The market is set to become more competitive as another international serviced apartment operator, Oakwood Worldwide, is set to enter the market during 2019.


Pasteur 51 Hotel & Apartment, Phnom Penh

PHNOM PENH SERVICED APARTMENT SECTOR

Landlords continued to offer attractive incentives for prospective tenants during H2 2018 and are becoming increasingly flexible in a bid to increase occupancy within their serviced apartments.

Supply

As at H2 2018, Ascott Limited, the first global serviced apartment operator in Cambodia, officiated its second serviced apartment, namely The Skylar Somerset in Tonle Bassac.

The total supply of serviced apartments was recorded at 5,307 units as at the end of H2 2018, reflecting an increase of 9% compared with the same period in 2017.

During H2 2018, five serviced apartment buildings, namely; Skylar Somerset, Pastuer 51, Urban Palace, Cambodia Country Club and a block of locally operated serviced apartments (unnamed) added 257 units to the existing stock.

The Skylar Somerset, located in Tonle Bassac, provides 105 high-end units managed by Ascott Limited, the world's largest serviced apartment operator, adding to their portfolio of properties in Cambodia subsequent to the opening of Casa Meridian on Diamond Island in 2017.

Another notable opening was Pasteur 51 Hotel and Residences, located in Daun Penh District. It comprises 54 hotel rooms and 17 serviced apartments. Urban Palace and a block of locally operated serviced apartment also completed during H2 2018 and are located in BKK 1 and BKK 2 respectively.

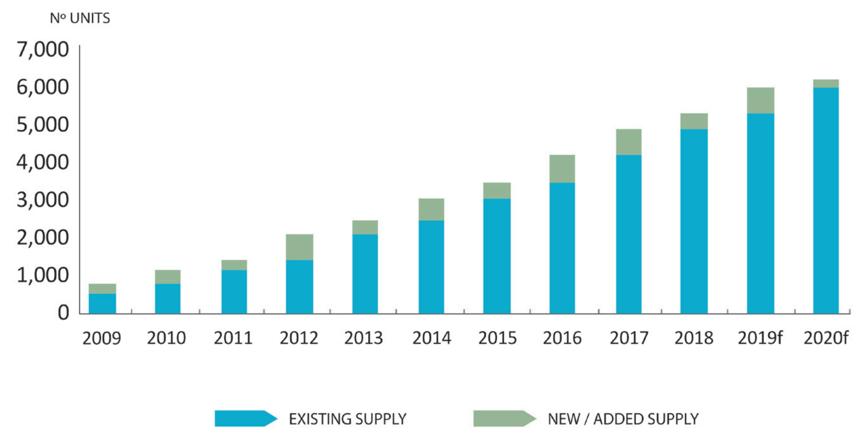
Cambodia Country Club (CCC), a well-known sports club that opened in Sen Sok District in 2006, added 24 serviced apartments to the complex, diversifying their product offering.

By location, Chamkarmon District remains the preferred choice among expatriates and comprise 55% of the existing supply in Phnom Penh, followed by Daun Penh and Toul Kork (12%), 7 Makara (9%), Chroy Chongva (7%), Sen Sok (3%) and Mean Chey (2%).

The mid-tier segment still dominates the market at 57% of the overall supply, followed by mass-market at 22% and the high-end segment at 21%.

A further 935 serviced apartments will be added to the supply by 2020, reflecting an increase of 18%.

FIGURE 5
CUMULATIVE SUPPLY OF SERVICED APARTMENTS (2009 - 2020f)



Source: Knight Frank Research

Rental

During H2 2018, rents in the high-end segment continued to decline due to the increasingly stiffer competition from the incoming supply of condominiums.

Since H2 2017, rental rates for high-end serviced apartments have been on a down trend and this continued during the second half of 2018. As at the end of H2 2018, the average rates within the high-end segment ranged between US$16 per sq m per month up to as high as US$28 per sq m per month.

The stiffer competition from incoming serviced apartments and condominiums also had adverse effects for the mid-tier segment. With the supply of condominiums doubling in 2018, landlords reduced rents in order to retain and attract new tenants.

Occupancy

The overall occupancy rate faced downwards pressure during H2 2018 and declined to 71%, down from 75% recorded in first half of 2018.

During the first half of 2018, the serviced apartment average occupancy rate recorded strong growth, increasing to 75%, from 70% during H1 2017.

However, with the condominium supply doubling during H2 2018, the overall occupancy rate for serviced apartments declined to 71% at as at the end of H2 2018.

High-end units were impacted the most, recording the largest decline in occupancy rate, reducing from 61% in H2 2017 to 51% in H2 2018.

Daun Penh and Chamkarmon remained the most desirable areas, outperforming the Phnom Penh average with occupancy rates recorded at 80% and 84% respectively.

Serviced Apartment Sector Outlook

One of the most noticeable trends for the serviced apartment sector was a reduction in the average duration of stay and this trend is likely to continue as operators compete for market share.

As the market becomes more competitive in Phnom Penh, landlords / operators are now more flexible, specifically in terms of stay duration.

Historically, operators would offer minimum lease terms of 3 to 6 months but have now been driven to offer short stay accommodation (hotel-like duration).

Additionally, average unit rates are becoming more competitive in line with Increasing competition within the serviced apartment sector, shifting from a landlord's to a tenant's market.

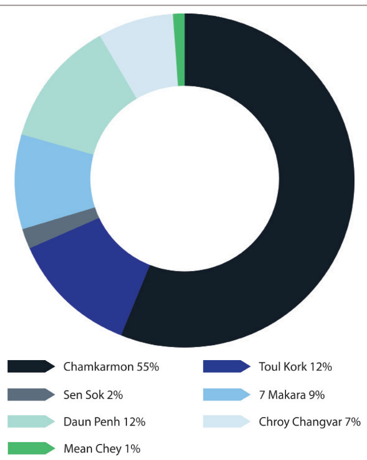
Demand for short-term accommodation is expected to be dominated by Chinese expatriates over the short and medium term as an increasing number of Chinese companies look to set up operation in Cambodia.

In terms of the diversity of accommodation offering, the shift away from locally owned and operated serviced apartments to newer developments operated by global service providers, such as as Ascott Limited and Oakwood Worldwide, will continue and plays a key role in improving the standards and quality of service to tenants.

These operators will also capture new demand for flexible living arrangements specifically for business travellers.

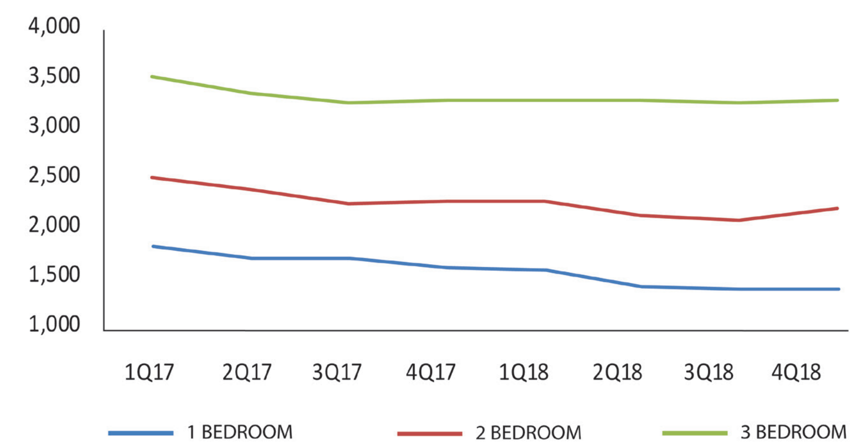
Whilst occupancy and unit rates are anticipated to decline over the short term, the entrance of these global operators highlights the longer term growth potential in this sector.

FIGURE 6
EXISTING SUPPLY BY DISTRICT



Source: Knight Frank Research

FIGURE 7
QUARTERLY MONTHLY ASKING RENTS FOR HIGH-END UNITS



Source: Knight Frank Research

KEY FINDINGS

Existing condominium supply increased to 16,334 units across 62 projects following the completion of 18 new projects during H2 2018.

Despite a growing supply of completed stock, the sales rate of monitored stock increased to 15%, from 11% during H1 2018.

New off-plan launches in H2 2018 were predominantly located in Toul Kork and Sen Sok, and within the mid-tier segment.

Increasing demand for condominiums from domestic purchasers encouraged developers to focus their efforts on mid-tier projects in outside city districts.

PHNOM PENH CONDOMINIUM SECTOR

The overall sales rate for 2018 declined to 13%, a one percentage point drop over 2017. However, there was an uptick in market sentiment subsequent to the general election which lead to an increase in sales during H2 2018

Supply and Demand

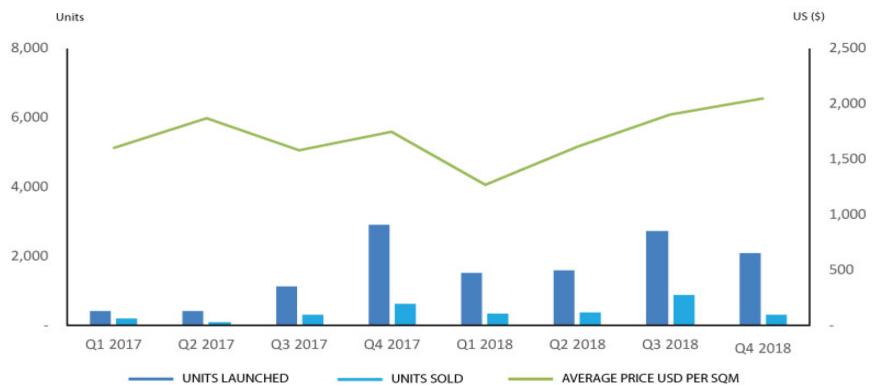
The number of completed condominium projects more than doubled in 2018 from 29 to 61 projects. As at H2 2018, the number of existing units stood at 16,014; a y-o-y increase of 116% from H2 2017.

8,601 units were completed during 2018 spread across 32 projects. H2 2018 alone saw the completion of 17 projects contributing 4,339 units.

These project were mostly concentrated in Chamkarmon, including The Bridge, Residence L BKK3, Monorom BKK2, Pearla Palace, Skylar (Somerset), D.I Riviera (Tower A), The One Maison and East View (Block A, B & C).

Several projects completed in Toul Kork including TK Royal One and Sky 31, whilst in Sen Sok Begonia, North Park (Building C - P1), Bodaiju Condominiums (Block A, B & C), Garden Residency and The Carnation were added to the supply. 7 Makara, Chroy Chongvar and Mean Chey saw the addition of Skyline, Mekong View 3 and PS Crystal, respectively.

FIGURE 8
SALES OF NEWLY LAUNCHED CONDOMINIUMS BY QUARTER



Source: Knight Frank Research

Of the 16,014 units, the High-end segment still dominated the market recorded at 9,531 units (60%) followed by the Mid-tier segment accounting for 6,483 units (40%). 17 projects due for completion in 2018 were rolled over and are now due for completion in 2019, with 31 projects due to come online in 2019. These projects, if completed, will contribute a total 11,403 units to the supply.

High land prices in the CBD and city centre and the foreseeable glut in high-end condominiums has led to developers investing in suburban areas such as Sen Sok and Chroy Changvar, which is also being driven by improving infrastructure. We anticipate the Mid-tier segment gaining a larger market share of new launches in 2019.

New launches identified in H2 2018 included Time Square II (216 units), Lingnan Garden (528 units), Ming Hour Condominium (141 units), TK Star International (910 units), Poly Mansion (644 units), Royal Orkide (Tower E) (235 units), KC Condo (62 units), Seven Residence (342 units), V-House Residence (235 units), J-Tower 2 (228 units), UNO26 Residence (70 units), R&F Glory (440 units) and R&F City (Phase 2) (792 units).

Currently, completed projects are still concentrated in Chamkarmon (46%), followed by 7 Makara (16%), Chroy Chongvar (12%), Sen Sok (11%), Toul Kork (7%), Daun Penh (3%), Russey Keo (3%), Meanchey (1%) and Chbar Ampov (1%).

The declining sales rate recorded during H1 2018 was reversed during H2 2018 with the sales rate increasing to 15% as market sentiment recovered, averaging the overall sales rate to 13% for 2018 (a one percentage point drop from 2017).

Prices and Rental

Prices across all segments recorded a slight decrease between H1 and H2 2018 as the existing supply doubled 2018.

With a significant supply of high-end condominiums completing during 2018, developers shifted focus towards Mid-tier and Affordable projects which impacted on the average price of new launches.

Notable launches during H2 2018 included UNO26 Residence, located in the prime area Tonle Bassac, Chamkarmon. For such a prime location, the units were competitively priced with studio apartments selling from US$59,400 (US$1,800 per square metre of net area) whilst 1-bedroom units were selling from US$93,000 (US$2,090 per square metre of net area).

Another notable launch was Time Square II by Megakim World Corp. Ltd. Despite the success of the developer's first project, Time Square comprising high-end condominiums in BKK 1, Chamkarmon, the new project has been positioned as a Mid-tier project in line with market demand.

To entice more domestic purchasers, attractive discounts, longer loan periods and low interest rates continue to be offered.

The continued increase in supply led to further downward pressure on rents.

This downward pressure negatively impacted investor returns, with rental yields compressing further during H2 2018.

As the sector shifts to a renters market, location continues to play a key factor in tenants' preference for accommodation.

Condominium Sector Outlook

Increasing demand for Mid-tier condominiums prompted developers to shift focus away from the High-end segment.

Our analysis of selected stock (existing and off-plan launches) revealed an increasingly optimistic sales rate for Mid-tier condominiums during H2 2018 at 19% whilst high-end condominiums recorded a sales rate of 8% over the same period.

Although supply still outpaces demand for condominiums, the rapid urbanisation rate in Phnom Penh is pushing prices for landed homes beyond the affordability level for the middle class population.

Post 2022, assuming all identified projects are completed, the total supply will increase to 47,350 units; an increase of 190% over the existing number of condominiums. Location wise, Meanchey District will be on par with Chamkarmon in terms of number of condominium units, mostly attributed to the R&F City project.

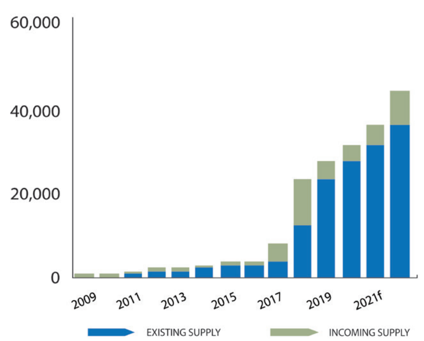
As supply continue to swell from incoming completed projects, we anticipate the High-end condominium prices will continue to remain flat in the near term.

With demand for high-end condominiums still largely driven by foreign investors, the challenge on developers to attract these buyers will be to deliver better quality finished projects as promised. Developers will be inclined to hand over good quality finished projects as well as professionally managed condominiums, thereafter creating a strong brand name for themselves to better attract buyers and returning investors for subsequent projects.

The conclusion of the general election during 3Q18 restored market sentiment, highlighted by the uptick in sales during 4Q 2018.

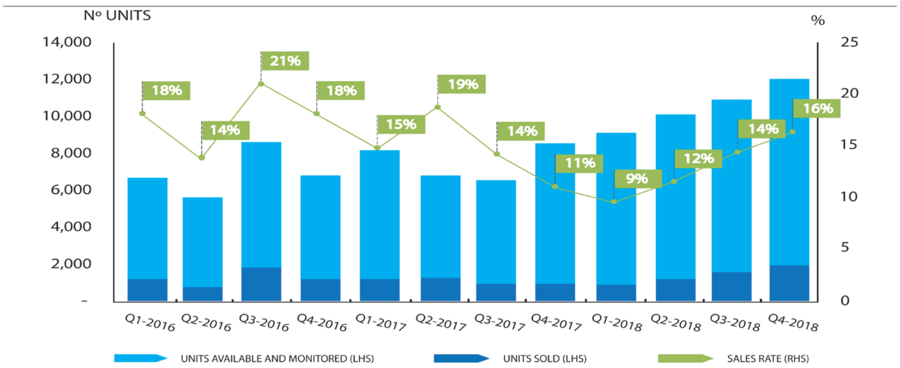
Despite the increasing supply of condominiums, we do not anticipate a significant adverse impact on pricing of condominiums; the rental market, however, will continue to become more competitive and landlords will be required to be more flexible in negotiations.

FIGURE 9
CUMULATIVE SUPPLY OF CONDOMINIUM (2009 - POST 2021)



Source: Knight Frank Research

FIGURE 10
QUARTERLY SALES OF MONITORED AND AVAILABLE CONDOMINIUMS (1Q2016 - 4Q2018)



Source: Knight Frank Research

PHNOM PENH LANDED HOUSING SECTOR

The gated landed housing sector in Cambodia (locally referred to as a Borey) was established in the early 2000s by local pioneers, and has been the preferred choice of residential property for the domestic market, for both occupation and investment purposes.

KEY FINDINGS

The existing landed housing stock was recorded at 46,197 units across 126 landed housing developments as at H2 2018, equating to an increase of 10% Y-o-Y.

Increasing land prices within the city centre continues to push landed housing developments outwards to city fringe locations

Between Q4 2017 and Q4 2018, the sales rate of total monitored stock remained relatively stable, ranging between 30% to 40%.

The average pricing for new launches saw a slight reduction from an average of US$847 per sq m during 2017 to US$715 per sq m in 2018.

FIGURE 15
EXISTING SUPPLY BY SEGMENT

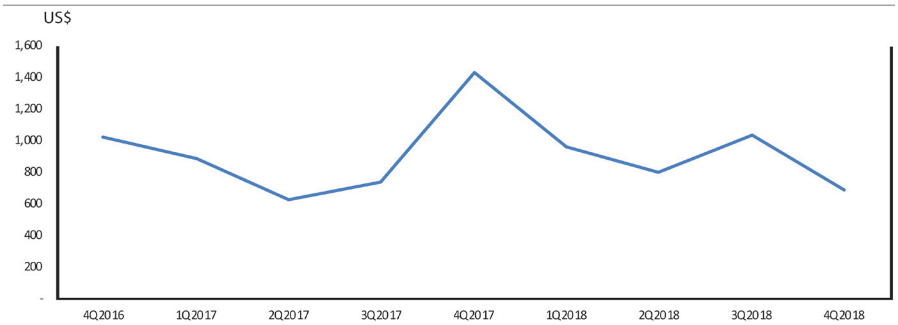
Supply and Demand

Landed housing developments (Boreys) are types of gated or non-gated communities, typically comprising flat houses, shop houses, shop offices, link houses, twin houses and villas.

Landed housing developments are a relatively new concept to Cambodia, with households in urban centres typically living in shop houses or shop flats, whilst wealthier Cambodians live in individually designed villas. Since the early 2000s, the construction of landed housing developments has expanded exponentially with several major local developers including Peng Huoth, New World, and OCIC leading the way in the development of boreys.

New entrants into the sector include Chip Mong Land and Orkide, and we are now starting to see international developers entering the market to develop borey projects. Whilst the quality is improving, the current developments are still some way off from international standards.

FIGURE 11
LAUNCH PRICE US$PSM



Source: Knight Frank Research

An additional 4,053 landed housing units were added to the existing supply during 2018, reflecting a Y-o-Y increase of 10% from 2017.

As at the end of 2018, the total number of landed units stood at 46,197, spread across 126 borey developments.

Of the 46,197 units, 2,012 units (4%) are located within the city centre districts whilst the remaining stock of 44,185 units (96%) are located in suburban districts.

By district, underpinned by the opening of AEON Mall Sen Sok, Sen Sok District has attracted the most landed housing projects with 29% of the market share, followed by Porsenchey (15%), Russey Keo (13%), Meanchey and Dangkor (10%), Chbar Ampov (9%), Chroy Chongva (8%), Chamkarmon (2%), Daun Penh and Toul Kork (1%) and the remaining 2% in Prek Pnov and 7 Makara.

Major completions during 2018 included Royal Orkide Villa (1,200 units) in Sen Sok District and The Mekong Royal (654 units) in Chroy Chongva District. Meanwhile the city centre saw the completion of four projects during 2018, namely, One Park, The Centric and Residence 90 (aggregate 387 units) in Phnom Penh City Centre (PPCC), Daun Penh District and Elysee (133 units) on Diamond Island. The Elysee project as a whole comprises 266 units, the remaining units are expected to be delivered by 2019.

As the city expands outwards, most new launches during 2018 were located in the suburban areas. 9 projects comprising 1,742 units were launched in H1 2018 and an additional 7 projects comprising 2,926 units launched in H2 2018. Out of the 16, only 1 is located within the city centre, namely The Elite Town III, located on Diamond Island. The project is being developed by OCIC, a subsidiary of Canadia Group.

An additional 18,027 units are scheduled for completion between 2019 and 2021, reflecting a 39% increase in the existing stock. 54% of this future pipeline is within the Mass-market category driven mainly by demand from the 'low-income' population, followed by Mid-tier (40%) and High-end (6%).

As expected, Flat Houses comprise the majority (39%) of the existing supply with these units being more accessible to the mass-market in Cambodia, which makes up the largest target market and demand driver. Whilst the 'middle-income' segment in Cambodia is growing, it is still relatively small hence the larger allocation to Flat Houses.

Average sales rate of new launches climbed to 34%, a 12% Y-o-Y increase, buoyed by a healthy sales rate from Mass-market launches. Priced below USD800$per sq m of GFA, notable projects within this category which fared well included New World Kaboul 3 (35%), Galaxy Residence (40%), Phnom Penh Park (P2) (40%), Phnom Penh Park (P1) (81%) and The Wood (40%).

Quarterly sales rate of the monitored and available stock remained relatively stable ranging between 30% to 40% from Q4 2017 to Q4 2018. As expected, with the general Election being held in July 2018, the number of projects launched remained subdued and the total available stock declined during the first three quarters of 2018, rebounding in Q4 2018.

In an attempt to kick start sales, developers now provide additional incentives and finance packages to assist buyers; these incorporate more flexible payment terms such as 0% deposits and lower monthly installments, as well as lower pricing.

Price and Rental

The average launch prices recorded a Y-o-Y decline from US$847 to US$715 per sq m between 2017 to 2018.

To boost sales, developers shifted their unit mix to provide additional affordable landed houses; typically smaller sizes and located out of city centre.

The first half of 2018 saw a number of Mid-tier and High-end segment launches. Mid-tier launches were priced between US$800 to US$1,000 per sq m whilst the High-end segment was priced between US$1,200 to $1,350 per sq m.

New launches during 2H 2018 for Mass-market ranged from US$550 to US$700 per sq m of the saleable area.

As at H2 2018, the average launch price was recorded at US$715 per sq m of GFA, a fall from the US$847 per sq m as at H2 2017.

Landed Housing Sector Outlook

The outlook for Landed housing sector remains optimistic underpinned by stable domestic demand, currently driven by the 'middle-income' bracket.

In contrast to the condominium market, which is now entering an oversupply situation in the high-end segment, the outlook for the landed housing sector remains optimistic, mainly due to it being propped up by a more stable domestic demand as compared with demand for condominiums which is driven predominantly by foreign investment.

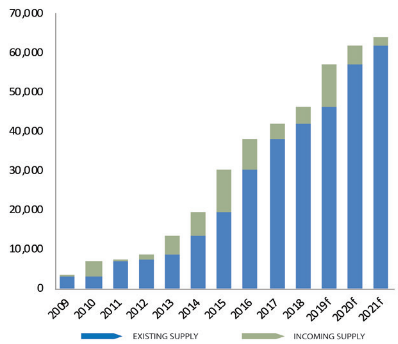
However, there was a noticeable slow down in the take-up of new launches, which can be lpartly attributed to a general slowdown in the market due to the 2018 general elections, but it is also due to slowing demand in the Mid-Tier and High-End segments of the landed housing market.

Many developers are also beginning to see the importance of creating a sense of community and promoting a better lifestyle among the residents by incorporating facilities such as pools, gyms and clubhouses into their masterplan as well as putting emphasis on the creation and management of gardens and other green common spaces.

Whilst demand growth moderated during the second half of 2018, momentum is expected to improved during 2019 and there remains a severe shortage of housing when compared with the growing household formation rate, and the medium to long term outlook for the sector is one of continued optimism.

FIGURE 12

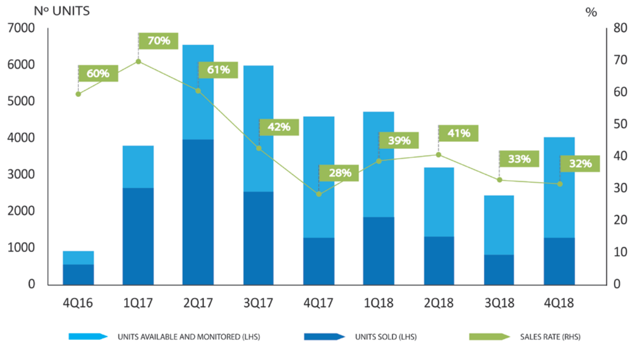
CUMULATIVE SUPPLY
(2009 - POST 2021)



Source: Knight Frank Research

FIGURE 13

QUARTERLY SALES OF MONITORED AND AVAILABLE LANDED HOUSING
(4Q2016 - 4Q2018)



Source: Knight Frank Research

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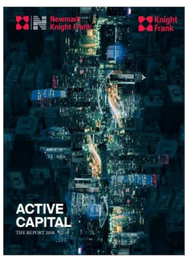

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