Phnom Penh *Siem Reap* *Sihanoukville*

Knight Frank

Cambodia Real Estate

Highlights - 2nd half 2019

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Key findings

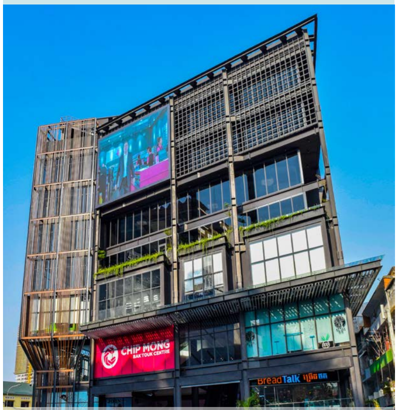
Four new office buildings (comprising 53,342 sq m of NLA) completed during H2 2019, increased Phnom Penh's overall office supply to 517,043 sq m of NLA, an 11.5% increase from H1 2019.

Of the four new buildings, Star City (Q3 2019) and The Fortune Tower (Q4 2019), pumped in 45,059 sq m of NLA to the strata-title office stock, totalling 79,636 sq m of NLA, a drastic increase of 130% from H1 2019.

However, supply growth for centrally-owned office segment decelerated significantly with an increment of 2% from H1 2019. Chip Mong Bak Touk and Alpha Tower, both completed during H2 2019, added 8,283 sq m of NLA; bringing the total stock count up to 437,407 sq m of NLA.

Office vacancy rate continues to rise to 18.2% (a 5.3 percentage point y-o-y increase from H2 2018) mainly due to the higher vacancy rates in suburban combined with low occupancy of stratified office space.

As the market faces a softening occupier market, downward adjustment for rental rates are expected as the building owners and individual investors of strata-title offices compete for tenants.



Chip Mong Bak Touk, Phnom Penh

PHNOM PENH OFFICE SECTOR

Overall supply for Grade B offices in Phnom Penh now surpasses Grade A whilst centrally-owned offices still remains dominant as strata-title office supply is increasingly coming online

Supply and Demand

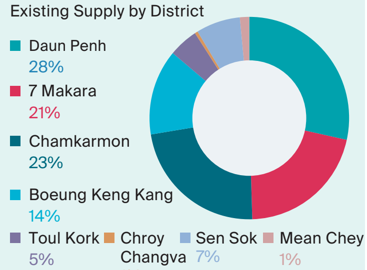
Four completions of office buildings during H2 2019; Chip Mong Bak Touk, Alpha Tower, The Fortune Tower and Star City, have pushed cumulative supply of office NLA to 517,043 sq m.

As at H2 2019, the cumulative supply of Phnom Penh's overall office supply stood at 517,043 sq m of net lettable area (NLA), a y-o-y increase of 24% from the second half of 2018. Over the next three years, the supply is forecasted to increase to 1,216,448 sq m of NLA, a 135% increase from the current stock count.

During H2 2019, Chip Mong Bak Touk and Alpha Tower have inaugurated, contributing 3,883 sq m (Grade B) and 4,400 sq m (Grade C) of NLA, respectively, to the centrally-owned office space existing stock. Whilst Star City and The Fortune Tower, both Grade B, have each contributed 20,221 and 24,838 sq m of NLA to the strata-title office supply.

Chip Mong Bak Touk is a wholly-owned retail cum office development; comprising a 3-storey retail podium with 5-storey office atop. This project is developed by Chip Mong Group, located within a commercial catchment area in close proximity to the Olympic Stadium and the Olympia City mixed development.

Figure 1:
Existing Supply by District



Source: Knight Frank Research

The current flexible space trend is influencing landlords to redesign their traditional office space to match the needs of the ever changing labour force. This is evident when Alpha Tower ceased operation during first half of 2018 for renovation and reconfiguration and re-opened during Q3 2019. To ensure its marketability, the landlord is offering additional options ranging from traditional office space to furnished office space, co working space and virtual office.

With the addition of various Grade B buildings over 2019, Grade B now dominates the entire office supply with 48% market share, followed by Grade C (42%) and Grade A (10%).

Location continues to be the main pull factor for most office tenants, hence, 91% of the office supply is located within the city centre whilst the remaining 9% is in suburban. Within the city centre, Daun Penh District still represents the most office space with 28% of the total market share, followed by Chamkarmon (23%) and 7 Makara (21%). The rest are spread amongst Boeung Keng Kang (14%), Sen Sok (7%), Toul Kork (5%) and Mean Chey (2%).

More Grade B offices to come online between Year 2020 and 2021.

Between Year 2020 and 2021, assuming all our monitored projects complete as scheduled, an additional 165,232 sq m of NLA will be added to the supply. 52% of this additional supply will be

Grade B space whilst Grade A and C will comprise 18% and 30%, respectively.

Three new projects were introduced/ launched during H2 2019; One Central Tower (centrally-owned), Amass Tower (centrally-owned) and KVBC Centre (strata-title). Both Amass Tower and KVBC Centre are Grade B class contributing 7,511 and 5,357 sq m of NLA, respectively. One Central Tower which is located in the suburban, Chbar Ampov District, will be a Grade A office. No information of its NLA can be obtained to-date.

Post 2022 will see the supply of Grade A offices surpassing Grade B and C.

Construction of new buildings continues unabated, with 699,405 sq m of NLA due to come on stream between 2020 and 2022, marking a 135% increase from the current stock.

Prince Huan Yu Centre and Prince Financial Tower, both of which were introduced during the first half of 2019, have been added to our basket. Both Prince Huan Yu Centre (strata-title) and Prince Financial Tower (centrally-owned) comprise Grade A offices and are the main contributors of the future majority of Grade A office. They will comprise 49,010 and 91,000 sq m of NLA, respectively.

Post 2022, the cumulative Grade A office supply is forecast to reach 638,466 sq m (52%) of NLA followed by Grade B offices with 372,293 sq m of NLA (31%) and Grade C offices with 205,689 sq m of NLA (17%).

Centrally-owned offices performed relatively well with an average occupancy rate of 86% as at H2 2019.

Lower rents remain attractive and Grade C offices continue to outperform with 87.5% average occupancy rate, followed by Grade B offices at 86.4% and Grade A at 80.1%.

There were no new Grade A offices completed during the second half of 2019, thus the average occupancy rate recorded a slight uptick and improved by 3.4 percentage points (to 80.1%) compared to H1 2019.

The impending supply of office space will continue to pressure the office rental market, with vacancy rates expected to rise. Upcoming new office buildings in prime locations with better grades, quality building features and competitive rents will continue to be well received, compared to older buildings.

Strata-title offices recorded an occupancy rate of 54% during H2 2019.

Conversely, the average occupancy rate for strata title offices was monitored at only 54%, largely due to their recent completion and generally, strata-title offices do not compete well with the remaining en-bloc space available in the market.

Occupied spaces of strata-title offices were predominantly Grade B with 46.5% followed by Grade C with 7.4%. To-date, there were no new Grade A strata-title offices completed.

Prices and Rental

Demand kept in pace with supply during 2019. Despite the incoming and impending supply in the pipeline, rentals have remained resilient with a slight improvement. The lower band of Grade A rental slightly increased from US$29 to US$40 per sq m per month (exclusive of service charges and tax). Whilst Grade B and C both are now commanding rental rates of US$21 to US$23 and US$13 to US$14 per sq m per month, respectively. The newly completed Chip Mong Bak Touk, The Fortune Tower and Star City, all within the Grade B category, had asking rentals ranging between $18 to $26 per sq m. The Fortune Tower stratified office units are available for sale with prices ranging from US$3,000 to as high as US$4,000 per sq m of the NLA.

Office Sector Outlook

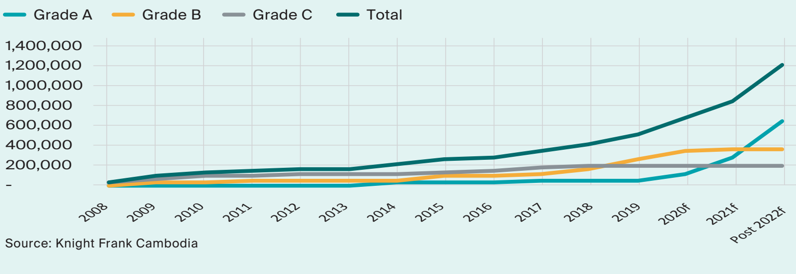
Rapid growth in co-working space and serviced office noted in Phnom Penh.

Demand for office space has grown in tandem with the incoming supply to-date. However, the high impending supply of office space is likely to cause a subdued-to-negative effect on rental rates and office vacancy rates are expected to rise. To attract better quality tenants, apart from offering greater rental incentives, landlords will be expected to offer other inducements such as favourable lease terms for prospective tenants and longer fit-out period.

To ensure marketability, landlords are also seeking co-working space operators and serviced office operators to enhance their offerings and provide better amenities within their buildings. Traditionally favoured by start-ups and SME's, major multinational companies are viewing coworking / serviced office space as a viable alternative vis-à-vis a traditional corporate office, and this trend looks set to stay.

By the end of 2019, there were approximately nine existing co-working space / serviced offices, spread over 8,190 sq m of net lettable area in Phnom Penh city centre. Over the next three years, this supply is forecasted to double.

Figure 2: Cumulative Supply By Year



Source: Knight Frank Cambodia

Key findings

Retail space in Phnom Penh increased by 11,584 square metres during H2 2019 with the completion of Chip Mong Noro Mall, The Point Community Mall and Chip Mong Bak Touk

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The overall retail space in Phnom Penh was recorded at 339,254 square metres of NLA (excluding Sovanna Shopping Centre), a nominal 0.2% increase over H1 2019, due to the temporary suspension of Sovanna Shopping Centre to undergo a major revamp and renovation.

Despite consumers' cautious approach to retail spending, new malls in the pipeline continue opening unabated.

By 2022, Phnom Penh will see an additional 498,056 sq m of retail space NLA, if all monitored projects complete as scheduled, out of which 85% will be prime grade.

Robust take-up rates by retailers noted in Chip Mong Bak Touk and Chip Mong Noro Mall on opening improved the overall occupancy rate in 2019; recorded at 85.3%.

Prime grade shopping malls witnessed a slight regression of rentals ranging between US$27 to US$31 per sq m of NLA whilst secondary mall rentals remained unchanged.

Chip Mong Noro Mall, Phnom Penh

PHNOM PENH RETAIL SECTOR

As supply is mounting up, mall operators and developers will have a big task on hands to carve out a niche market positioning for their mall and alternative tenant mixes ensuring marketability of their shopping mall and reduce tenant turnover

Supply and Demand

The retail space supply recorded a 26% y-o-y growth during 2019. Cumulative retail space supply increased to 339,254 square metres of NLA as at the end of 2019.

Toward the second half of 2019, two new community malls and a new retail podium officially opened; namely Chip Mong Noro Mall, The Point Community Mall and Chip Mong Bak Touk.

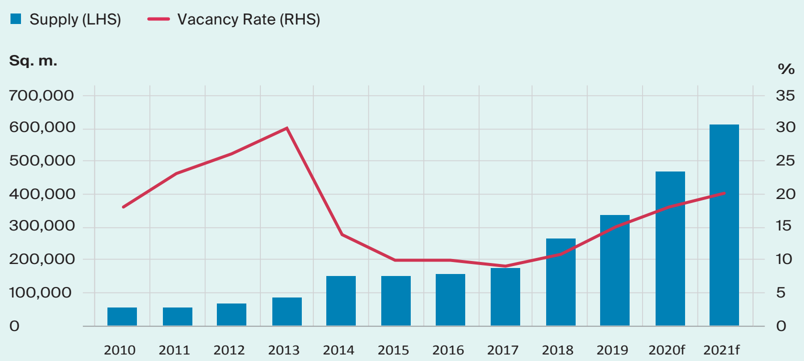
The Point Community Mall is an office cum retail development. Officially opened during Q3 2019, the retail section is a community mall totaling 2,200 sq m of NLA.

Chip Mong Retail, a subsidiary of local conglomerate, Chip Mong Group, further enforced its retail market offering with the entrants of Chip Mong Noro Mall and Chip Mong Bak Touk, both securing healthy take-up rates of 70% and 90%, respectively, upon opening.
Chip Mong Noro Mall is a standalone community mall contributing 7,400 sq m of NLA. As the main driver of retail space demand in Phnom Penh, Food & Beverage retailers comprise a majority of the tenant mix, interspersed with a number of specialties, services, a hypermarket and entertainment. Chip Mong Bak Touk is a three-storey retail podium within a mixed office cum retail building contributing 1,984 sq m of retail space NLA.

Incoming retail supply in Phnom Penh is projected to grow at a compounded annual growth rate (CAGR) of 34% between 2020 and 2022. By the end of 2022, existing stock could accumulate to approximately 830,000 sq m of NLA if all monitored projects launched or under construction are completed on schedule.

The current ratio distribution of retail space between the city centre and suburban districts stood at 64 : 36. This ratio is set to even out by 2022 with the completion of the 26 monitored projects as the majority of upcoming supply (65% of total supply) is focused in suburban districts.

Figure 3: Phnom Penh Supply and Demand of Retail Space



Source: Knight Frank Research

Despite two new entrants of shopping centres in Boueng Keng Kang District during H2 2019, retail space supply by district remained unchanged. Sen Sok recorded the most supply with 27%, followed closely by 7 Makara (25%), Chamkarmon (22%). The rest are distributed within Daun Penh, Toul Kork, Boueng Keng Kang, Chbar Ampov and Mean Chey.

With 4 new projects set to complete during 2020, Toul Kork will gain a larger representation of retail space supply with an additional 83,002 square m of NLA, followed by Daun Penh with 23,800 sq m and Sen Sok with 3,600 sq m. The volume of Toul Kork's upcoming retail space supply is largely made up from Phnom Penh Megamall, expected to complete by Q3 2020. During H2 2019, an additional six new malls were announced; namely Khalandale Mall, HCN Mall & Residence, The One Mall, B2B Park, K-Mall (KMH PARK) and Chip Mong Mall 598.

During H2 2019, Parkson Group, a regional Malaysian retail mall operator, announced it would withdraw from the Cambodian market altogether, and terminated its anchor space lease agreement of 30,000 sq m within the Phnom Penh Mega Mall due to continued construction delays and will no longer be developing their own mall (Aeropod Mall) opposite the Phnom Penh International Airport. This withdrawal has been taken into account in our monitored basket for future supply.

Despite the overall occupancy rate declining by 3.6 percentage points to 85.3% since 2018, occupancy rate during the second half of 2019 improved by 4.5 percentage points, largely attributed by the removal of Sovanna Shopping Centre from our monitored basket (recording a 50% occupancy rate at the time of closure) and also the robust occupancy rates from Chip Mong Noro Mall and Chip Mong Bak Touk upon opening.

Prices and Rental

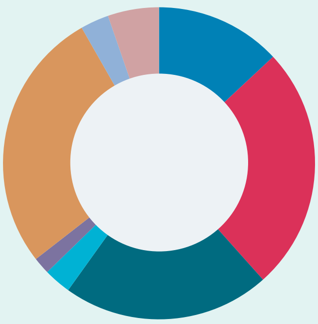
Rentals for prime grade shopping malls witnessed a slight regression, ranging between US$27.00 to US$31.50 per sq m of NLA (excluding service charges and tax). However, rentals for secondary grade malls remained unchanged at US$21.00 to US$31.50 per sq m of NLA.

The large amount of upcoming retail supply is anticipated to further restrict rental growth for both prime and secondary grade malls in both city centre and suburban districts.

Additionally, monetary incentives are being provided during pre-lease period specifically to established tenants within the entertainment and food & beverage segments to entice tenants; these segments remain the main crowd-pullers to increase footfall while providing venues for social and economic interactions.

Figure 4: Distribution of Existing Retail Space by District

Daun Penh 13% · 7 Makara 25% · Chamkarmon 22% · Boeung Keng Kang 3% · Toul Kork 2% · Sen Sok 27% · Chbar Ampov 3% · Mean Chey 5%



Source: Knight Frank Research

Retail Sector Outlook

Based on a population in Phnom Penh of 2,129,371 as at 2019 (based on General Population Census 2019), the retail space per capita as at H2 2019 was 0.16 per sq m. If all retail space in the development pipeline comes on line as scheduled, Phnom Penh is expected to enter into an oversupply situation with shopping malls facing downward pressure on both occupancy and rental rates impacting on bottom lines for owners and developers. However, the issue of retail oversupply is usually location-specific.

For retailers, the increase in retail supply will meant further dilution to the market as most malls will be offering similar goods and services; worsening their already challenging environment. Despite millennials being poised to be the biggest spender in the near future, the growth of e-commerce outpacing traditional physical stores will only further exacerbate retailers' current challenges.

Future incoming shopping complexes are also better planned in terms of design and concept to attract shoppers which will increase challenges to ageing malls. Older malls are stepping up by undergoing refurbishment and repositioning to meet ever-changing consumer behaviour and retailer requirements.

Another primary concern for the retail sector is the consumer spending power in Cambodia. With the rising cost of living, the retail sector is anticipated to be adversely affected as consumers, mainly from the lower income group, will be cautious with spending, specifically with big ticket items, leading to high tenant turnover due to poor business performance and the high rents not being sustainable.

With the majority of consumer spending within Phnom Penh's retail malls being on food & beverage and entertainment and these tenants typically paying a much lower rent than other types of retailers; mall operators will be required to take this into account for conceptualising their market positioning and tenant mix.

PHNOM PENH HOTEL SECTOR

A key contributor to economy over the past decade, tourist arrivals in Cambodia experienced an average annual growth of 11.8% between 2009 and 2019.

Key findings

The Great Duke Hotel (formerly the InterContinental), announced its official closure, deducting 374 rooms from our existing Luxury & Upper Upscale supply.

The cumulative supply of hotel was climbed to 11,335 with the completion of four new hotels, despite a major closure.

Vide the Ministry of Tourism statistics, tourist arrivals recorded positive growth of 6.6% y-o-y, reaching 6.6 million, with the majority of arrivals from China (35%).

Average occupancy rates for hotels across Cambodia for the past three years remained stable at 55% despite the increasing supply.

Hayatt Regency, Phnom Penh

Supply

NagaCorp continued rigorously with the announcement of Nagaworld 3 in Phnom Penh, adding 4,720 keys representing 66% of the total future pipeline.

The Great Duke Hotel (formerly managed under InterContinental brand) officially ceased operation at the end of 2019, withdrawing 374 keys from the Luxury & Upper Upscale inventory.

2019 saw an additional 884 keys across six hotels completed in Phnom Penh. The total cumulative supply stood at 11,335 keys at the end of 2019, reflecting an increase of 5% y-o-y.

The latest entries during H2 2019 were Tian Yi International Hotel (208 keys), Thai Xing Long (128 keys), Olympia City by Dara (166 keys) and HM Grand Central (87 keys).

Tian Yi International Hotel and Olympia City by Dara are both within the Upscale & Upper Midscale (4 stars) whilst Thai Xing Long and HM Grand Central are both within Midscale & Economy (3 stars).

Daun Penh, a highly concentrated area for commercial activities and tourist attractions, dominates the location preference for hotel operators with 4,181 keys (37% of the overall supply), followed by Chamkarmon district (23%), Boueng Keng Kang (10%), Chroy Chongva (9%), 7 Makra (8%), Sen Sok (6%), Toul Kork (4%), Mean Chey (2%) and Porsenchey (1%).

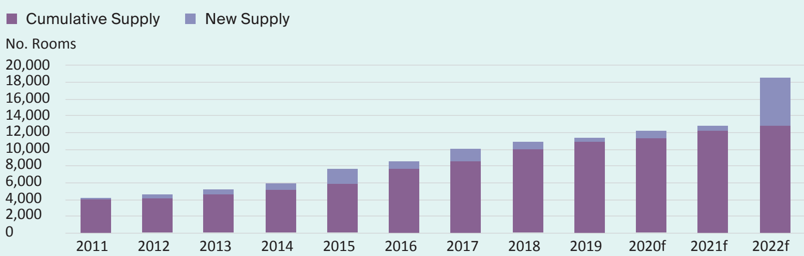
Hotels in Phnom Penh are still dominated by Midscale & Economy with 49% of the total supply being in this category, followed by Luxury & Upper Upscale (5 star) with 26% and Upscale & Upper Midscale (4 star) 25%.

Several International brands are scheduled to open between 2020 to 2022, including Hyatt Regency, Novotel, Fairfield Marriott and Hilton Hotel.

Both Hyatt Regency and Fairfield Marriott are being developed by local conglomerate, Chip Mong Group, providing an aggregate 550 keys with expected completions in 2020 and 2022, respectively.

Meanwhile, Novotel, under Accor Hotels, is under construction in Boeung Keng Kang District and scheduled for completion by 2022, providing 200 keys to the future stock.

Figure 5: Phnom Penh Supply and Demand of Retail Space



Source: Knight Frank Research

International hotel, Hilton Hotels & Resorts, executed a management agreement with a real estate company based in Phnom Penh to operate under one of their flagship brands.

An additional 7,189 keys are expected to complete in Phnom Penh between 2020 to 2022, largely attributed by Naga World Casino 3 located in Chamkarmon (providing more than 4,000 rooms). If all monitored projects complete as scheduled, the total cumulative supply of hotel rooms will reach to 18,524 rooms in 2022, reflecting an increase of 63% from the current supply.

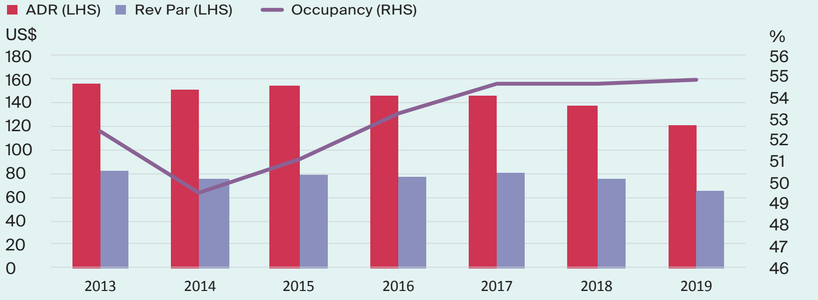
Occupany rate and room rates

Tourist activities continued growing with international tourist arrivals during 2019 recorded at 6.6 million, reflecting a 6.6% y-o-y increase from 2018.

As Cambodia's tourism sector continues expanding, international tourist arrivals kept an upward trajectory with a CAGR growth of 11.8% between 2009 and 2019. Among the international tourists and business travellers, China remained the top source at 36%, followed by Vietnam at 14%.

By airports, Phnom Penh International Airport recorded a consistent growth of tourist arrivals at 6 million during 2019, reflecting an increase of 11% from 2018.

Figure 7: ANNUAL ADR, REVPAR & OCCUPANCY RATE (LUXURY & UPPER UPSCALE)



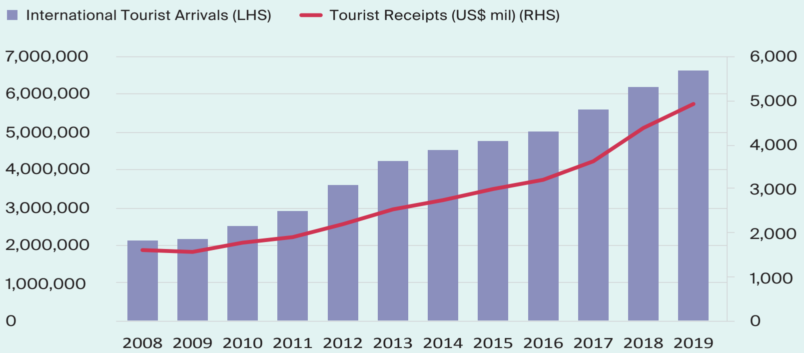
Source: Knight Frank Research

Despite the increase of international tourist arrivals in Cambodia, more specifically in Phnom Penh, the average hotel occupancy of Luxury & Upper Upscale remained relatively flat y-o-y at 55%.

To remain competitive with new upcoming hotels, operators of existing hotels are expected to lower their room rates to sustain their hotel occupancy level this leading to a decrease in Average Daily Rates (ADR).

The overall ADR of monitored hotels during 2019 declined 13% from US$138 in 2018 to US$121 in 2019. As a result, Revenue per Available Room (RevPAR) also registered a 12% decrease from US$76 in 2018 to US$66 in 2019.

Figure 6: International Tourist Arrivals (2008 – 2019)



Source: Ministry of Tourism

Hotel sector outlook

Hotel sector in Phnom Penh to remain healthy for the foreseeable future but ADR is expected to remain flat.

As the city continues developing, there is an increasing number of foreign companies setting up in Cambodia alongside with other global businesses establishing a presence in Phnom Penh.

Beside the influx of these businesses, specifically from China, the growth of the tourism industry contributed to the need for additional luxurious accommodation which stimulated development activity, evidenced by the piqued interest by global hotel operators such as Hilton, Hyatt and Marriott.

However, sustainability of the hotel sector is dependent on the city's continuing establishment of tourism products such as international standard conference and exhibition centre (MICE) and market diversification of tourist arrivals.

Demand for the city's serviced apartment and condominium is increasingly weary and saturated. Owners and operators of these properties are now increasingly open to short stays and they are generally a cheaper option compared to hotel accommodation, providing tourists and business travellers with wider options. On top of that, the increasing supply of upcoming hotels will exacerbate the already stiff competition faced by existing hotel operators in sustaining their occupancy rates.

PHNOM PENH SERVICED APARTMENT SECTOR

Average occupancy and rental rates remained resilient in Phnom Penh's serviced apartment sector during H2 2019 despite new condominiums and serviced apartments continuing flood the market.

Key findings

The existing supply of serviced apartments was recorded at 5,999 units spread across 161 projects as at H2 2019.

Mid-tier serviced apartments maintained its dominant share in the market with 54% of the overall supply, followed by High-End 23% and Affordable 23%.

As the most sought-after and preferred location to stay, Boeung Keng Kang (BKK) District continues to have the highest concentration of serviced apartments; approximately 42% of the new incoming supply is located within this district.

The occupancy rate for serviced apartments remained generally flat at 73%; over the past three years, the serviced apartment occupancy has been stable ranging between 70% to 75%.

Landlords/operators of existing serviced apartments commanding healthy occupancy rates will be looking into ways of retaining their existing tenants by providing additional enticements

Lumiere Residence, Phnom Penh

Supply

An additional 516 serviced apartments units completed and were added to Phnom Penh's overall supply, the overall supply stood at 5,999 units as at H2 2019.

The total serviced apartment stock was recorded at 5,999 units at the end of H2 2019, equating to a 13% y-o-y increase comparing the same period in 2018.

As at H2 2019, 516 serviced apartment units across nine projects opened operation, namely; Precious Serviced Apartment, Boss Apartment, Lumiere Residence, Ly Heng, Millennial Apartment and four projects of locally-operated serviced apartments (unnamed).

Of the total supply, 48% of newly completed projects were classified as High-end apartments (250 units), followed by 29% Affordable apartments (148 units) and 23% of Mid-tier apartments (118 units).

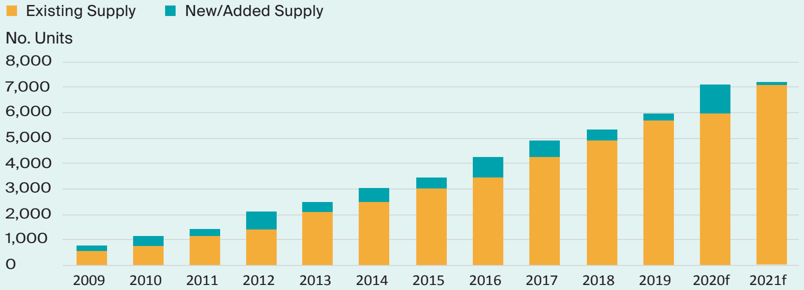
Precious Serviced Apartment was previously added to our basket with only nine units opened for public use due to its partial completion. Now, it has been fully completed with an additional 36 units.

Millennial Apartment, sited in BKK District, added 84 High-end serviced apartment units to the existing supply. Along with three other newly completed locally-operated serviced apartments, the aggregate units added to BKK District was 221. Hence BKK District remains the district with highest concentration of serviced apartments with 36% of the total market supply, followed by Chamkarmon (18%), Daun Penh (13%), Toul Kork (12%), 7 Makara (11%), Chroy Chongva (6%), Sen Sok (3%) and Mean Chey (1%).

Overall, the majority of the existing serviced apartment units were located within the city centre (90%) and the remaining (10%) were located in the Suburban area.

An additional 1,205 serviced apartments have been identified and will be added

Figure 8: Cumulative Supply of Serviced Apartments (2009 - 2020f)



Source: Knight Frank Research

to the supply over the next two years, reflecting an increase of 20%, assuming all identified projects complete as scheduled.

Rental

As at H2 2019, rental rates for High-end units inched down to US$22 per sq m whilst the remaining segments stabilised.

Rental rates for serviced apartments in Phnom Penh have remained resilient despite competing with incoming condominiums and extended stay hotels, with only the High-end category having inched down to US$22 per sq m from US$23 during H1 2019. Whilst the Mid-tier and Affordable categories remained flat as in H1 2019, recorded at US$13 per sq m and US$7 per sq m, respectively.

The latest notable entry a within the High-end category, Millenial Apartment, sited in BKK district, recorded average asking rents between US$21 to US$ 26 per sq m per month.

Occupancy

The latest occupancy rate for serviced apartment in Phnom Penh of 73% did not reveal any signs of market saturation.

The significant increase of condominium supply and also serviced apartments to the market over the second half of 2019 led in occupancy rate to a slght decline 73%, a one percentage point drop from H1 2019. This did not reveal any signs of market saturation and indicated that demand for serviced apartments is still stable.

Over the past three years, demand for serviced apartments has fared relatively well hovering between 70% to 75% despite the significant increase in developments for all types of residential dwellings.

Location wise, BKK and Daun Penh Districts each commanded the highest average occupancy rate of 78%, being the preferred location to stay among expatriates, followed by Toul Kork (77%), an increasingly sought-after district to stay, 7 Makara (73%) and Chamkarmon (72%). Chroy Changvar and Sen Sok, suburban districts, recorded slightly lower occupancy rates at 68% and 61%, respectively.

Apart from location, the market is also price sensitive. Affordable and Mid-tier categories enjoyed commendable average occupancy rates of 82% and 79%, respectively, across all districts whilst High-end recorded an average of 57%.

Serviced Apartment Sector Outlook

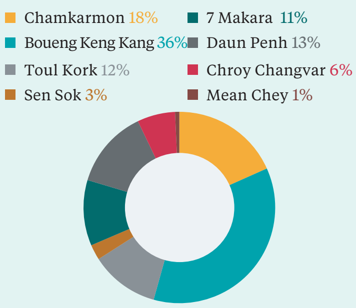
Historically a well performing sector, demand for serviced apartment is holding firm, for now.

Although the supply of serviced apartments and increased significantly in 2019, occupancy rates have remained robust throughout. With demand mainly stemming from expatriates working in Phnom Penh, serviced apartments may still be the preferred choice over traditional condominiums due to their additionoal serviced and facilities.

However, this may shift towards a tenanst' market as the increasing supply also means that tenants will be gradually more selective due to a wider variety of choices. In order to sustain a healthy occupancy rate, landlords and operators will most likely look to retain existing long-term tenants by providing additional benefits such as discounted rental or additional free-of-charge facilities or services.

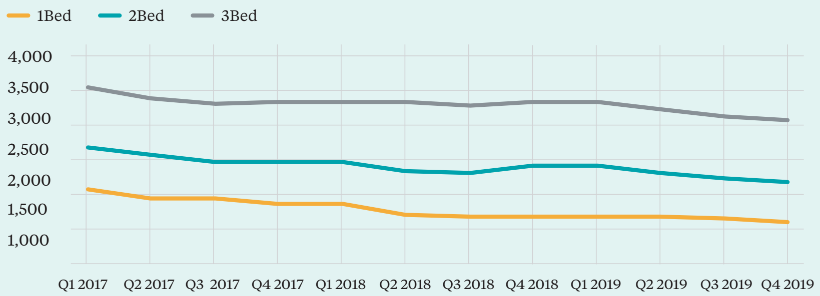
Similar to any other tenanted properties, landlords and operators of serviced apartments will be expected to provide increasingly competitive pricing and flexibility on tenancy tenure. By far, the influx of foreigners and expatriates working in Phnom Penh has been sustaining demand for serviced apartments. However, if this reduces, serviced apartment operators may be faced with intensified competition among completed condominiums and other extended-stay hotels, competing for tenants.

Figure 9: Existing Supply By District



Source: Knight Frank Research

Figure 10: Quaterly Monthly asking rents for high-end units



Source: Knight Frank Research

Key findings

As at H2 2019, existing supply of condominiums in Phnom Penh stood at 19,236 units, up by 10% as compared to H1 2019, following the completion of 4 new developments.

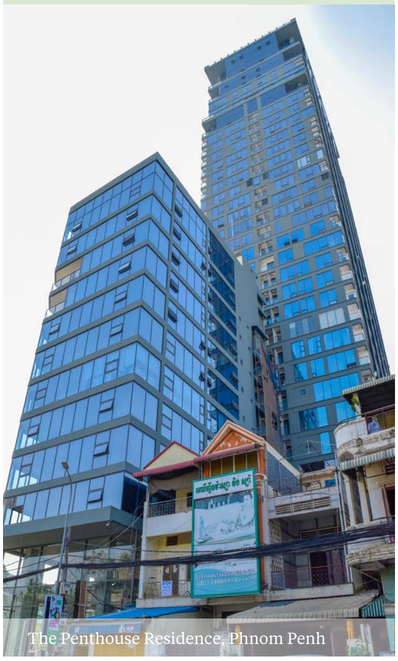
Sales rate for new off-plan launches during H2 2019 declined to 7% as condominium sector activity remained lackluster – demand from Chinese investors/buyers was adversely impacted from the weakening of Yuan currency as the US-China trade war continues.

Chamkarmon remained top of the list with highest concentration of condominiums representing 38% of overall condominium stock in Phnom Penh.

Condominium developers continued resiliently with 15 new off-plan launches, out of which 79% are High-end units.

Majority of the new off-plan launches identified during the second half of 2019 were focused in outer city districts, mainly Toul Kork and Chroy Changvar.

With the increasing supply entering the market, condominium rents and occupancy rates are expected to face downward pressure as it also competes with existing serviced apartments in the city.



The Penthouse Residence, Phnom Penh

PHNOM PENH CONDOMINIUM SECTOR

Notwithstanding the slow down of the global economy, condominium developers' confidence remained positive with 15 new off-plan projects launched during H2 2019.

Supply and Demand

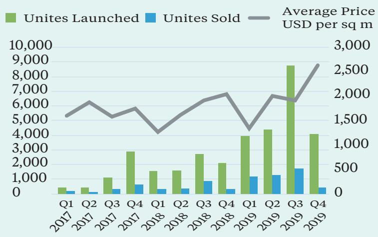
The cumulative completed condominium developments in Phnom Penh climbed up to 71, with the completion of four projects.

The second half of 2019 saw the addition of 1,704 condominium units spread over four newly completed projects. The total existing supply of condominiums in Phnom Penh soared to 19,236 units, a y-o-y increase of 124% from H2 2018.

The abovementioned four new projects were Star City (800 units), One Park (166 units), The Penthouse Residence (458 units) and Prince Modern Plaza (280 units). Star City is within the High-end segment comprising a total 1,600 units, out of which 800 units completed during Q3 2019. Whilst One Park and The Penthouse Residence, both also within the High-end segment, were completed during Q4 2019. The only Mid-tier segment condominium completed was Prince Modern Plaza.

The Penthouse Residence and Prince Modern Plaza are both located within the prestigious District of Chamkarmon while One Park is within Daun Penh and Star City within Sen Sok.

Figure 11: Sales of Newly Launched Condominium units by Quarters



Source: Knight Frank Research

Chamkarmon is the most preferred and popular residential area within the city due to its close proximity to the CBD and commercial areas, resulting in its largest concentration of condominium projects, representing 38% of the overall market share. The partial completion of Star City which contributed 800 units to Sen Sok has raised this district to the second highest condominium concentration with 15%, followed by 7 Makara (13%), Boeung Keng Kang (10%), Chroy Changvar (10%) and Toul Kork (6%). The remaining 5% are scattered among Daun Penh, Russey Keo, Chbar Ompov and Mean Chey.

The ratio of High-end vs Mid-tier segment condominiums has slightly nudged up as there were more High-end condominiums completed from the total four new completed projects with 63% and 37%, respectively. The numeral split between High-end and Mid-tier segment condominium now stood at 12,110 units and 7,126 units, respectively. To-date, our monitored basket does not comprise any Affordable segment (below US$800 per sq m).

15 new off-plan condominium projects were launched during H2 2019, of which nine of them are within the High-end segment, namely Wealth Mansion (1,158 units), La Cozii TK (76 units), Huang Shan International (670 units), Morgan Enmaison (4,840 units), Mesong (1,270 units), One Park S-G (166 units), Garden One (271 units), The Flora Suites (198 units) and Royal Skyland (1,476 units).

The remaining six Mid-tier projects launched during H2 2019 were namely Time Square III (280 units), Vue Aston (895 units), M Residence (378 units), City Gem (456 units), The Hexa (500 units) and Lotus Land (180 units).

Taking these new launches into account, over the next three years, upcoming completed condominiums will continue flooding the market with a projected growth of 259% to 69,036 units assuming that all the launched projects and those in the pipeline are completed as scheduled.

Scarcity of lands is driving up land price, thus pushing developers to begin shifting their projects outwards. The future geographic distribution of condominium concentration three years from now will shift to Chamkarmon, Chroy Changvar, Sen Sok, Mean Chey and Toul Kork.

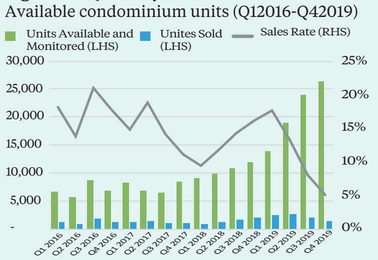
Expectedly, sales rate of High-end condominium launches during H2 2019 halved to 7% as compared to the sales rate during H1 2019 which was monitored at 15%. The devaluation of Yuan currency and the on-going US-China trade war adversely impacted demand for High-end condominiums from Chinese investors/ buyers, whom previously made-up the large majority of buyers for this segment.

Prices and Rental

The average selling price of existing condominiums and new launches during H2 2019 saw a slight appreciation

Although the average selling prices of both the Mid-tier and High-end segments does not differ significantly since H1 2019, a slight appreciation was noted toward the end of 2019 due to the increased number of new off-plan launches for High-end condominiums and launches in prime residential locations.

Figure 12: Quarterly Sales of Monitored and Available condominium units (Q12016-Q42019)



Source: Knight Frank Research

Generally, the average selling price for the Mid-tier condominium segment hovered between US$1,250 to US$1,800 per sq m over the net saleable area whilst the High-end condominium segment was between US$2,000 to US$4,000 per sq m over the net saleable area.

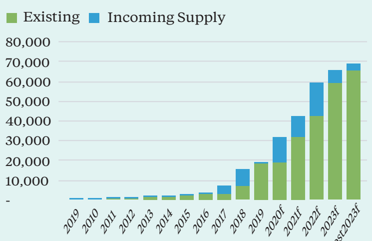
A notable Mid-tier condominium launch was Time Square III, located in Toul Kork District, an increasingly popular residential district. Offering 230 units of Mid-tier condominiums, this project achieved a sales rate of approximately 80% during the first quarter of launching.

Another notable launch was The Royal Skyland Condominium, a 47-storey High-end condominium. This condominium is sited in Toul Tompong, Chamkarmon District and comprises 1,476 units ranging from one to five bedrooms. Selling price starts from US$1,850 per sq m over the net saleable area.

Additionally, two skyscraper condominiums were launched in the core of the city centre namely, Mesong by Wonder Development and Huangshan International by Huibang International Real Estate Co. Ltd. Priced towards the High-end segment, Mesong will extend to 71 storeys with an average selling price is US$4,000 per sq m over the net saleable area whilst Huangshan International will extend to 47 storeys with an average selling price of US$2,500 per sq m over the net saleable area.

Meanwhile in Chroy Changvar, Wealth Mansion and Morgan Enmaison are both High-end segment condominiums.

Figure 13: Cumulative Supply of Condominium units (2009-Post2023)



Source: Knight Frank Research

The latter is a large-scaled project. Both were priced similarly ranging between US$2,000 to US$2,200 per sq m over the net saleable area.

Condominium Sector Outlook

Developers remained optimistic over the future of the condominium market with the apparent growth of domestic demand

Although 2019 ended on a slower note for the condominium sector and also the global economy in general, the continuous optimistic launches showed that developers remained confident with the condominium sector.

Condominium sector is very price sensitive as the idea of condominium living only cushions in specifically among the domestic market due to the rapid increase of landed house pricing. Therefore, the Mid-tier segment will be more sought-after.

Understanding condominium buyers appetite in consonance with product positioning and offering is vital for a developer. The continuous provision and launches of High-end condominiums priced above average and beyond affordability parameters will mostly likely register poorer sales rate as it will be largely dependent on foreign buyers. Attempts to improve sales rate would involve price correction for their new launch if such developers want to compete with other completed projects with unsold inventories or overhang units.

Moving forward, condominium pricing is expected to remain flattish over the short to medium term, as supply continues streaming in. Newer marketing strategies will be expected to entice condominium buyers as they will be increasingly selective with wider varieties. Apart from location, other main appeal for condominium buyers are competitive pricing, lower downpayment, interest free loans and longer repayment periods.

PHNOM PENH LANDED HOUSING SECTOR

The landed housing sector continues growing exponentially with 34 new off-plan projects launched during 2019; real estate developers are increasingly tapping into the landed housing sector due to attractive returns and commendable sales rate.

Key findings

11 new boreys were completed during the second half of 2019 contributing an additional 4,654 units to the existing stock.

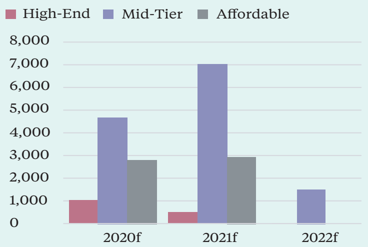
Cumulative existing supply of landed housing rose to 55,932 units, spread across 142 borey developments.

By 2022, Knight Frank estimated the total cumulative supply of landed housing to be 76,405 units; an additional 20,473 from the existing stock; reflecting an increase of 37%.

16 new off-plan launches were identified during H2 2019, with the average selling prices ranging between US$759 to US$1,070 psm.

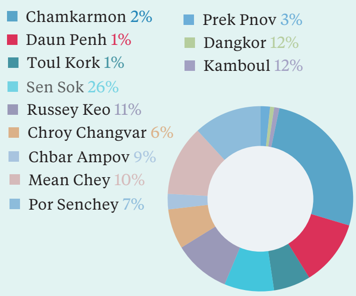
Average sales rate of new launches during 2019 declined by two percentage points to 41% from 2018.

Figure 14: Future Supply by Year and Classification



Source: Knight Frank Research

Figure 15: Distribution of Existing Landed Housing Supply by District



Source: Knight Frank Research

Supply and Demand

The second half of 2019 observed a rapid increase in landed housing (gated and guarded community); total existing supply soared to 55,932 units.

TThe cumulative supply for landed housing was recorded at 55,932 units, spread across 142 developments in the city, as at H2 2019, reflecting a y-o-y increase of 21% from the same period of 2018.

Out of the existing 55,932 units, only 2,012 units (4%) are located in the city centre whilst the remaining 53,920 units (96%) are located in the suburban areas of Phnom Penh, which is largely due to the higher land cost in prime areas of the city.

Location wise, Sen Sok District continued to constitute the bulk of existing landed housing supply with 26% of the overall supply, followed by Dangkor and Kamboul (12% each) and Russey Keo (11%). The rest are distributed among Mean Chey (10%), Chbar Ampov (9%), Por SenChey (7%), Chroy Changvar (6%), Prek Pnov (3%), Chamkarmon (2%), Daun Penh (1%), and Toul Kork (1%). Boeung Keng Kang and 7 Makara only accumulate 1% of the total existing supply.

By segment, Mid-tier landed housing accounts for 28,744 units (51%), followed by High-end with 6,033 units (11%) and the remaining Affordable segment with 21,155 units (38%).

From our monitored projects, approximately 52% of the landed housing supply are flat houses whilst link houses comprise 14% followed by twin villas with 13%, shop houses with 11% and villas with 11%. Generally, flat houses remained the more popular and sought-after type of landed house, commanding a higher sales rate as compared to the other types.

By 2022, Phnom Penh's cumulative landed housing supply will increase to 76,405 units if all our monitored developments are completed as scheduled, an increase of 20,473 units.

Within the continued future supply of 20,473 units across all districts, 64% are categorised as Mid-tier developments whilst the remaining is divided between Affordable (28%) and High-end (8%). Suburban continues to be the major areas earmarked for landed housing with 98% of future upcoming supply whilst the remaining 2% will be in the city centre.

As one of the fast developing countries in the Association of Southeast Asian Nations (ASEAN), Cambodia is under-going major transformation. Developers continuously seek to provide more landed residential housing to keep pace with the growing demand stemming from the population increase in Phnom Penh.

The second half of 2019 saw 16 new off-plan projects launched in both suburban and city centre, adding a total future incoming supply of 2,675 units to our monitored developments. 10

developments were launched during Q3 2019 whilst the balance 6 developments launched during Q4 2019.

Projects launched during Q3 2019 were Golden Avenue (300 units), Borey Willian (165 units), KMH Park (40 units), Borey Angkor Oudom (135 units), The Varina – The Styles Sen Sok (313 units), Borey Ratanak 5 (136 units), Borey Chue Pom (228 units), Borey Rith (305 units), Borey Romchek Toul Pongro (360 units) and Borey LJ 137K (85 units).

Whilst projects launched during Q4 2019 were Lotus Property (60 units), PH Platinum Eco Melody (289 units), PH Platinum Eco Delta (646 units), Borey Kim Soing The Laken (355 units), Borey Golden Park (170 units) and last but not least, Royal Skyland (23 units).

The overall sales rates of 2019 new off-plan launches was recorded at 41%. The first half of 2019 saw a more robust sales rate of 44%, which decelerated toward the second half of 2019 to 34%.

Borey Rattanak 5, Borey LJ 137K, Borey Chue Pom and Golden Avenue, all of which were launched during Q3 2019, achieved sales rate ranging between 40% to 50% which is commendable as landed housing sales rate tends to be slow and steady increase. Golden Avenue, developed by Mekong Royal, is located in a rapidly changing Prek Pnov District. This optimistic sales rate however, declined toward the end of 2019 with only Lotus Property in Russey Keo and Borey Kim Soing The Laken in Chbar Ampov achieving sales rates of 45% and 41%, respectively.

Prices and Rental

Average selling price saw a considerable leap from 2018 to 2019, moving from US$683 to US$914 per sq m (34% increase).

The average price of the new launches during H2 2019 was recorded at US$840 per sq m. The only High-end project monitored during H2 2019 was Royal Skyland with an average selling price of US$3,500 per sq m. Whilst the remaining Mid-tier launches recorded selling price ranging from US$800 to US$1,200 per sq m (over 11 projects) and Affordable recorded selling price ranging from US$532 to US$660 per sq m (over 4 projects).

Overall selling price saw a y-o-y increase of 34% from 2018 to 2019 with the average selling price in 2019 recorded at US$914 per sq m.

Landed Housing Sector Outlook

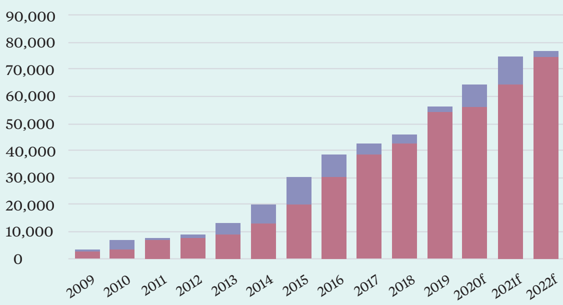
The landed housing sector is mostly driven by domestic purchasers due to restrictions imposed on foreigners owning landed properties in Cambodia. As the population of millennials in Phnom Penh is increasingly moving into the work force, demand for landed housing is increasing, due to preference towards landed properties as is in any other cities.

On top of the commendable sales rate, the saturating condominium and retail sectors are prompting more developers to tap into the landed housing market, including developers with track records of condominiums.

Location wise, suburban districts will still be the preferred locations as they're more viable to provide Affordable and Mid-tier housings, at the same time sustain a commendable sales rate whilst maintaining their profit margin. City centre locations are only suited for high-rise developments due to the explicitly high land cost. Along with affordable pricing, developers now also look into providing a lower down payment and longer repayment schemes to attract young families seeking their first home.

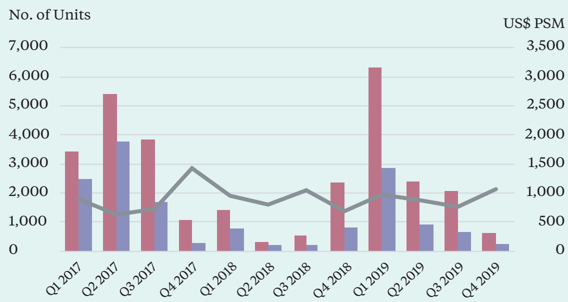
Chip Mong Landmark 271, Phnom Penh

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



Source: Knight Frank Research

Figure 17: Units Launched, Sold and Average Price (Q1 2016- Q4 2019)



Source: Knight Frank Research

SIEM REAP H2 2019 REVIEW

Overview

The hospitality and tourism industry remains the main driver for this province which houses the country's main tourist attraction. However, this industry correlates strongly with the stability of the geopolitical landscape and global economy.

Since 2010, Siem Reap International Airport consistently recorded a year on year growth of tourist arrivals (both domestic and international) leading to a flurry of business and investment activities in the province.

However, the resilient growth of tourist arrival abruptly cut short during 2019 recording a 12% decrease, concurrently slowing down the pace of business and investment activities. International tourist arrival growth to Siem Reap International Airport itself dropped by 15% in comparison to year 2018.

Travellers from China generally made-up the large majority of tourist in the entire of South-East Asia destinations and Siem Reap was no exception. Historical statistics showed that Chinese tourists accounted for up to 45% of the total international tourists in Siem Reap during 2018.

Although the latest 2019 statistical report from the Ministry of Tourism recorded an overall tourist arrival increase to Cambodia, Siem Reap International Airport recorded a drop of 15% due to a major shift of tourist destinations to the coastal province of Sihanoukville. The shift was evidenced by a remarkable surge of tourist arrivals in Sihanoukville International Airport by 158% for both domestic and international arrivals and 186% for international arrival only.

During 2017, the amount of tourist arrivals and visitors to Angkor Archaeological Park surged, subsequently leading to admission fees to the park increasing during 1Q 2017. The same year saw a revenue increase of 72%. However this was short-lived as the growth rate of tourist arrivals and visitors the following year moderated, followed by a negative growth rate in 2019. As a result of Siem Reap's tourist arrival deterioration, admission fee sales for Angkor Archaelogical Park followed suit and declined by 15% to US$99m in 2019, compared to US$116m during 2018.

The latest population count in Siem Reap based on the General Population Census 2019 was recorded at 1,006,512; equating to a CAGR of 1.1% between 2008 and 2019. With the tourism sector slowing down, economic diversification is much needed in the province. The lack of commercial and residential developments piqued interest among local developers.

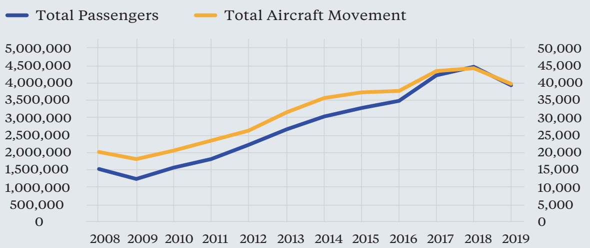
A few notable residential projects launched during 2019 include Angkor Grace, Vnom Empire and Bakong Village.

Bakong Village, is a mixed use development comprising shophouses and three-storey walk-up apartments. The height restriction of a maximum of four storeys imposed for developments within the Apsara Zone is hindering developers eyeing to provide high-rise condominiums and apartments.

Another condominium, Sky Park Condo, launched during H2 2019, comprises 40 units of one, two and three bedrooms aimed to entice investors with guaranteed rental returns.

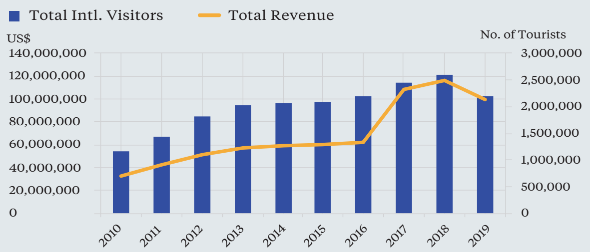
The sustainability of the tourism sector in Siem Reap will rely heavily on the government infrastructure improvement; three outer ring roads which will improve accessibility in and around the town, along with the new international airport project are in the pipeline or already under construction.

Figure 18: Number of Passengers and Aircraft Movement Through Siem Reap Airport (2008 to 2019)



Source: Cambodia Airport

Figure 19: Number of International Tourists to Angkor Wat and Total Revenue (2010-2019)



Source: Angkor Enterprise

HOTEL SECTOR

Since 2009, Siem Reap's tourism industry has been flourishing year on year, maintaining its upward growth trajectory, except for year 2015. CAGR growth of international tourist arrivals was recorded at 9% per annum between 2008 and 2018. Despite the increase in commercial developments during 2018, 2019 was somewhat more toned down. International tourist arrival growth dipped 15% whilst the growth for both domestic and international tourist arrivals declined 12%, leading to a decline in admission fee sales to Angkor Archaeological Park by 15%.

No new hotels or developments with a room inventory above 50 keys were noted during H2 2019. However, we identified three additional hotel projects with 50 keys and above to include in the existing stock as at H2 2019 including; Kulen Resort (66 keys), Memoire Palace Resort (64 keys) and Hotel De la Renaisance (170 keys).

As at H2 2019, the total supply of existing hotel room were recorded at 12,148 rooms across 88 hotels, reflecting a 3% Y-o-Y increase compared with the same period last year.

The Upscale & Upper Midscale (4-Star) stock remains the major offering in Siem Reap with 64% of the overall supply, followed by Luxury & Upper Upscale (5-Star) (23%) and Midscale & Economy (3-Star) (13%).

Approximately, twelve (12) hotel projects with a room inventory below 50 keys were opened during H2 2019, with room inventories ranging from 12 to 48 keys.

Mane Family Vacation, managed by Mane Boutique Hotel & Spa, opened its doors during the second half of 2019.

Boosting a number of other boutique hotels under its management across Siem Reap and Phnom Penh, this latest addition comprises 48 keys of a variety of room collections. Other newly opened hotels included Angkor Aurora, Araya Angkor Residence, GZ Premier Luxury Residence and etc.

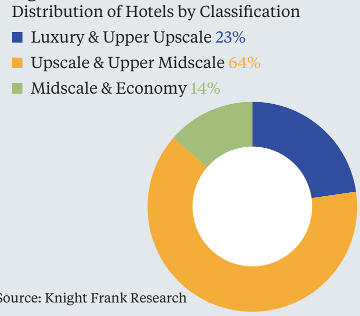
Since the entrance of international hotel chain, ibis Styles in 2019, other international hotel chains are expected to make an entry into the market, including Angsana Siem Reap, managed by Banyan Tree. This hotel will add 158 keys in the future pipeline.

Post 2021, an estimated 740 keys (only considering projects with 50 keys and above) will be entering the hotel supply pushing the total supply up to 12,888 keys. The majority of upcoming hotel rooms are categorised as Luxury & Upper Upscale (5-Star) followed by Upscale & Upper Midscale (4-Star).

Figure 20: Cumulative Supply of Hotel Rooms (2005 - Post 2021f)

Source: Ministry of Tourism / Knight Frank Research

Figure 21:
Distribution of Hotels by Classification



Source: Knight Frank Research

Outlook:

Housing one of the world's leading tourist attractions, Angkor Archaeological Park, Siem Reap's hospitality sector stands to benefit largely as it remains in most travellers' "must-visit" list. However, repeated visitation is uncommon by the same traveller due to its limited offering of tourist attractions, apart from the Angkor Archaeological Park. The tourism industry in Siem Reap can only be sustained with additional establishments and developments of tourism offerings such as shopping malls, theme parks and iconic buildings to entice repeat visitations and compete with its regional neighbours.

The entry of Courtyard by Marriott and IHG and the recently opened ibis Styles, piqued additional interest of more renown hotel chains, the upcoming Angsana Siem Reap by Banyan Tree. However, with the declining tourist arrivals, coupled with the excess in accommodation offerings and saturated hotel market, operators will be faced with increased pressure on profitablity as they attempt to remain competitive by lowering room rates to increase occupancy rates.

RETAIL SECTOR

With the increase in higher value tourists, the retail landscape in Siem Reap is slowly evolving and transforming to include modern retail formats. Currently still dominated by traditional shophouses and markets as the main retail offering, the town is starting to witness a growing number of shopping malls, supermarkets, convenient stores and cash & carry wholesale retailers.

However, in contrast to Phnom Penh or Sihanoukville Province, the rate of retail development and advancement is at a much slower pace. As at H2 2019, there were no new completion of purpose-built shopping mall in Siem Reap. The cumulative retail space stood at 49,914 sq m of net lettable area as at the second half of 2019.

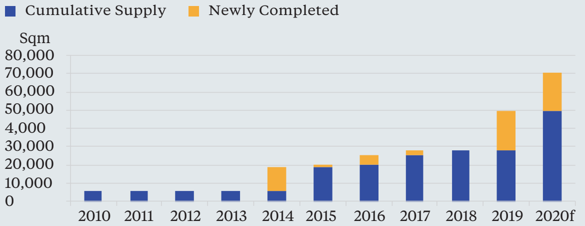
Makro, the cash & carry wholesale retailer, and The Heritage Walk, a shopping centre, retained their latest entrance of modern retail format, both opened between late 2018 and early 2019, offering a different retail format.

International tourist arrivals typically has a direct correlation and effect on the retail sector, as tourists typically make-up the largest footfalls in most major cities. During 2019 when the growth rate of international tourist arrivals declined, the reduced foot traffic around Siem Reap's retailers was apparent.

Thai-based cash & carry wholesale retailer, Makro, which opened early 2019, targets small businesses, vendors, hotels and restaurants as their main source alongside with the local populace. Lately, with the reduced tourist arrivals, which are the main driver for Siem Reap, created a less optimistic consumer and business sentiment. As a result, foot traffic and business was affected in Makro, with small businesses, vendors, hotels and restaurants taking in less supplies. On top of that, the majority of the local populace is still more inclined to patronise retails in traditional formats such as shophouses and markets. Heritage Walk, on the other hand, faired better, as it is more centrally-located and most of its retailers are skewed toward the food & beverage segment, which is the main crowd-puller for most malls. Still in its infancy stage, the reduced international tourist arrivals and consumers being held back by lack of income and eroded purchasing power due to rising cost of living contributed to the brakes on consumer spending. Once a busy mall when it first opened, it is now evidently recording lowere volume foot traffic. Notwithstanding, with a total net lettable area of 11,989 sq m, this standalone shopping centre managed to secure a healthy occupancy rate of approximately 80%.

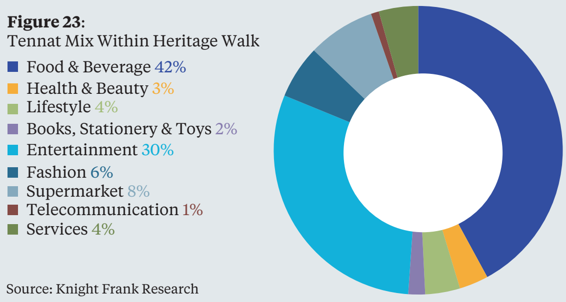
Other smaller-scaled malls located in the town which are also tourist offerings are T-Galleria by DFS, CDF Angkor Duty Free Store, Lucky Mall, Angkor Trade Centre, King Road Angkor, etc. Lucky Mall and Angkor Trade Centre are both the pioneer of Siem Reap shopping malls since 2008. However, both malls were small-scale projects; comprising net lettable areas of approximately 2,500 to 2,900 sq m, respectively.

Figure 22: Cumulative Supply of Retail Space in Siem Reap



Source: Knight Frank Research

Figure 23: Tennat Mix Within Heritage Walk



Source: Knight Frank Research

Outlook:

As part of the transformation of traditional retail outlets to modern formats, it is expected that additional new malls will be introduced. Kulen Central Mall, a retail development comprising 20,580 sq m of NLA together with The Century Road and the Colossus has been added to our basket of future supply. Disparity in performance between newer, better planned malls with older malls is anticipated to be increasingly obvious in the future. Competition is also expected to intensify once the new complexes come online.

To-date, the retail sector remains subdued in Siem Reap. The rapid advancement of e-commerce will only challenge traditional shopping further as the millennial generation is inclined to online shopping and e-payment, further exacerbating physical retailers' profitability. Optimism in the retail sector is premised on a recovery of the tourism industry with a bleaker outlook anticipated should the tourist arrival continues decreasing.

RESIDENTIAL SECTOR

Siem Reap is the most well known tourist hub of Cambodia, attracting visitors globally to its archaeological park. Since 2018, the flurry of investment activities were apparent in Cambodia since the entry of Chinese companies in Sihanoukville Province. Siem Reap is of no exception as it gradually begin to attract local investments.

Although sluggish, progression in Siem Reap's residential sector is gradually increasing. Recent notable launches include Sky Park (condominium) and Bakong Village (landed housing).

Existing modern housing developments in Siem Reap include Borey Tourism City (the largest borey development in Siem Reap), Borey Angkor Palace, Borey Prem Prey, Borey Seang Nam and Borey Ear Heng. The Siem Reap residential sector (landed housing) is dominated by owner-occupiers. Demand from foriegn purchasers remains limited as residential investment in Siem Reap is yet to boom.

Due to very limited demand, price sensitivity remains high in Siem Reap. Les Bijoux D'Angkor Apartment which was initially announced in 2016, has been placed on hold until today despite it being in a sought-after location.

The tourism sector has been driving up commercial values around Siem Reap's prime location and it is no longer feasible for developers to provide landed housing within prime locations at affordable prices, thus most borey developments were launched outside the town centre, the most recent being Bakong Village. Sited in Prasat Bakong District, the Phnom Penh based developer, Urban Living Solution, proposed 245 units of three-storey walk-up apartments along with 105 units of shophouses.

Other on-going projects in Siem Reap include The Premier Angkor Palace, Angkor Grace, Vnom Empire, Borey Ear Heng 3, Sky Park. Borey Nagara and Borey VK Angkor. Upon completion of all the projects as scheduled, the Siem Reap residential sector will be more diversed. Majority of land in Siem Reap's town locality is restricted by a maximum height limit as they are located in the Apsara Zone. To-date, there are no proposed or announced purpose-built condominium projects.

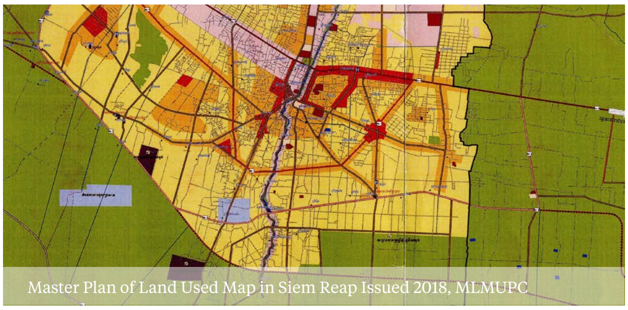
Tapping on the success of their initial project, Goldia Park, comprising two rows of terraced houses which was anecdotally sold out to holiday home purchasers by city workers in Phnom Penh, the same developer launched the first low-rise condominium, Sky Park, with units varying from one bedroom to three bedrooms during H2 2019. Comprising a total 40 condominiums, the condominium is sited opposite Goldia Park, within Svay Dangkum District, extending to a land area of 5,600 sq m.

Pricing for Sky Park range from US$67,000 to US$145,000 per unit with size ranging between 55 sq m to 121.7 sq m of NSA. This five-storey building is scheduled to complete over the next two years. To proliferate additional enticement the developer is offering a guaranteed rental return (GRR) of 12% per annum and also providing loan options to 15 years.

Sky Park Project

Architect Rendering

Yellow- Residential Zone



Master Plan of Land Used Map in Siem Reap Issued 2018, MLMUPC

Outlook:

Landed housing will continue spearheading Siem Reap's residential sector, due to a strict height restriction (Apsara Zone) in Siem Reap. The proposed land use map publicised during 2018, outlining proposed land use up to year 2035, showed that the majority of land is zoned for residential, specifically the southern portion of National Road 6, which remains viable to develop residential projects as land pricing in this region remains affordable.

Still off the radar of foreign investors, the residential sector remains driven by owner-occupiers by the local populace, although the new launches managed to attract investors from city dwellers of Phnom Penh. Infrastructure improvements of the new Siem Reap International Airport (50 kilometres due east of the city) and proposed ring roads will hopefully assist to increase traffic volume and business sentiment around the town.

SIHANOUKVILLE H2 2019 REVIEW

Overview

Since 2015, Chinese investors have established a permanent presence in Sihanoukville, transforming the underdeveloped coastal town into a fledgling city with the development of commercial (retail and office), residential (condominiums and boreys), industrial hubs, hotels and casinos.

Online gambling was a key driver of development underpinning demand across several real estate sectors. However, the Government of Cambodia placed a moratorium on license renewals and announced an outright ban from continuity of operation by the end of 2019, leaving a sharp increase of departures for many Chinese nationals returning to China.

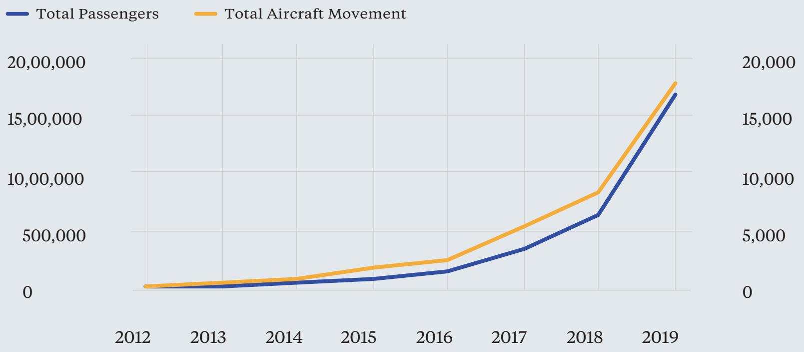
Prior to this, land prices had skyrocketed due to competition between developers, which greatly benefited landowners, whilst the lack of apartments and condominiums pushed rentals in beachfront locations to be on par with Phnom Penh. However, the exodus of Chinese nationals due to the online gambling ban impacted the entire Sihanoukville economy and affected all stakeholders in the province.

The scarcity of apartment buildings, hotels and casinos enticed many local landowners to leverage their lands with banks and financial institutions to build and provide accommodation to meet the demand in the market. In turn, many Chinese businesses which are not able to own land in Cambodia due to restrictions on foreign ownership, entered into agreements with these landowners to rent the properties en-bloc (the whole building) to run their operation.

However, the announcement of the online gambling ban, which purportedly was the main operation of these businesses, left many landowners over leveraged as these businessmen left abruptly, effectively terminating any executed leases and forfeiting deposits. The fear of not being able to secure other tenants to takeover the leases led to many landlords mothballing their on-going construction projects.

As at the end of H2 2019, many on-going projects were being offered for rent on an en-bloc basis at quoting prices up to 50 percent lower than rent being quoted during H1 2019

Figure 24: Number of Passengers and Aircraft Movement Through Sihanoukville Airport (2012 to 2019)



Source: Cambodia Airport

Sihanoukville International Airport (Kong Keng International Airport) is one of the country's three main airports. With the increase in international flights, mainly to China, passenger movements achieved a record growth of 158%, with 1.68 mil passengers movements during 2019.

Subsequent to the online gambling ban there has been a noticeable decline of tourists in Sihanoukville and the once busy streets have suffered a significant reduction of footfall, impacting on tourism-centric businesses. The situation is exacerbated by the on-going road construction improvements across the entire city adding to business owners' struggles. However, upon completion of the road restorations, accessibility in and around Sihanoukville will be greatly improved.

Externally, the on-going US-China trade war has devalued the Yuan currency, leading to a dampened investment activity across the province, more so on an individual level. Corporate investments continue to rise cautiously as businesses operating in other industries and sectors continue to seek opportunities supported by major on-going infrastructure projects, i.e. the Phnom Penh-Sihanoukville Expressway which will greatly improve connectivity.

Statistically, total approved projects across Cambodia during 2019 was recorded at 436, out of which 203 projects were focused in Sihanoukville. Construction approvals in Sihanoukville peaked during 2018 with 297 projects.

Overall, the online gambling ban may have had a short term negative impact on the local economy and across a number of real estate sectors, however, it is anticipated that this will strengthen the long term fundamentals and sustainability of the province.

RESIDENTIAL SECTOR

Capitalising on its advantageous coastal location, the residential sector has been one of the most active sectors, specifically condominiums, attracting mostly foreign purchasers. The growing demand prompted developers to launch a slew of new high-rise projects, particularly in the city centre and sea front locations whilst landed housing moved outwards to city fringe locations to cater to domestic demand due to exorbitant land prices.

By the end of 2019, the number of existing condominium supply stood at 2,159 units, spread across 6 projects namely Civik Apartment 1, Civik Apartment 2, Classic Condo, Sunshine Bay, Blue Bay and Blue Sky Tower.

Blue Bay and Blue Sky Tower were the latest entries to the existing supply, which contributed an aggregate 1,622 units to the existing pipeline, with Blue Bay being the provinces first large-scale project, itself alone contributing 1,440 units. Fronting onto Independence Beach, this project was classified as High-end; launch prices ranged between US$3,200 to US$4,000 per sq m of NSA.

Blue Sky Tower comprises 182 condominiums, sited in Sangkat Pir, which is located inland. Launched during the second half of 2016, this project contributed 182 condominiums to the Mid-tier category, with commercial lots on the ground floor.

The completion of Blue Bay shifted the concentration of existing condominium projects, placing Sangkat Bei with the most distribution, representing 87% of the total existing supply, followed by Sangkat Pir with 13%. Sangkat Pir has its own advantages and is also sought-after as this is a commercialised location which is highly populated with various business activities.

Over the next three years, Sangkat Bei will sretain its position with the most condominium distribution, representing 65% of the overall supply, followed by Sangkat Boun (33%) and the remaining within Sangkat Pir (2%).

Despite the departure of many Chinese workers and expatriates in Sihanoukville stemming from the online gambling ban, developers continued with project launches; nine off-plan condominium projects were launched during the second half of 2019 with a majority of the new launches being large-scale projects providing between 1,500 to 2,500 units. However, average selling price for newly launches recorded a decline of 20% to US$1,968 per sq m of the NSA.

Post 2022, assuming all identified projects are completed as scheduled, the total supply of condominiums will swell to 31,131 units, which is 15 fold from the existing supply.

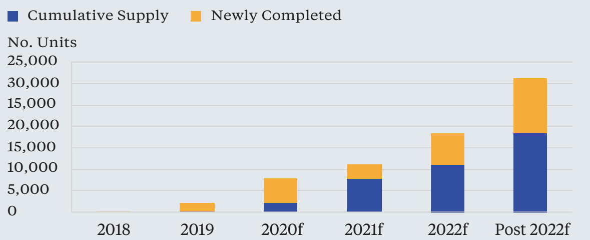
As a coastal city, high-rise residential condominiums remains a preferred option among investors and holiday home purchasers. New off-plan landed housing projects were quite minimal, with only two projects namely Borey VIP (4,000 units) and Lashen The Lord Garden (315 units). The high land pricing has made it not feasible to provide landed housing within the city centre, thus both these projects are located at the city fringe.

By segment, the majority of the launched and on-going condominiums are categorised as High-end with 61% of the overall supply and the remaining 39% are within the Mid-tier category. To-date there have been no launched or completed affordable condominiums in the market.

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 year ended unfavorably for landlords providing long- term accommodation to Chinese expatriates and workers, which will no doubt have a negative impact on the condominium sector. With the ban on online gambling and the repatriation of many Chinese expatriates and workers in this industry, owners of existing and ongoing condominiums will be faced with increased competition to secure tenants and buyers for their units, and will be required to increase flexibility in terms of pricing and lease terms.

Although to-date there is no evidence of a glut, the high impending supply (15 fold) of completions over the next three years may lead to a state of consolidation due to an excess in supply.

HOTEL SECTOR

Overview

According to the Tourism Statistics Report Year 2019 published by the Ministry of Tourism, Kong Keng International Airport (Sihanoukville's main airport) recorded 666,723 international tourist arrivals, reflecting a 186% growth compared with the previous year which was expected in line with the increase in international direct flights between Sihanoukville and international routes. Chinese tourists made up the largest proportion of international arrivals.

Coastal regions of Cambodia welcomed 1,204,374 foreign visitors during 2019, a 37% increase from the previous year thus indirectly leading to a spike in passenger traffic for Kong Keng International Airport with 1.68 mil passenger movements, a growth of 158% compared with 2018.

The boom in the tourism industry over the past three years has been driving growth in the hospitality sector. There was a significant increase of hotels during the past three years to cater to growing demand. As at H2 2019, our basket of monitored hotels (hotels with with 50 keys and above) was recorded at 65 providing 7,220 keys, reflecting a 38% Y-o-Y increase compared with H1 2019.

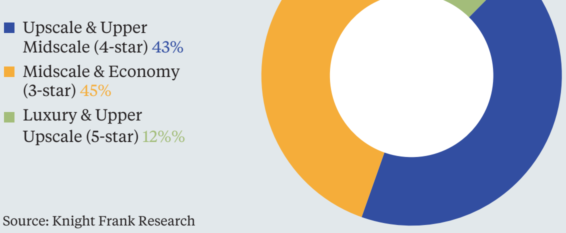
Many of the latest additions are operated by hotel chains originating from China, which expanded into Sihanoukville to cater to the growth in Chinese tourists. These included Zhong Hua Wei International Hotel comprising a casino on its lower floors and 220 keys on the upper floors and AZ Crowne Plaza (Huang Guan Jia Ri) providing 291 keys. Both hotels were classified as Upscale & Upper Midscale (3-Star).

Of the new supply, 1,050 keys were categorised as Upscale & Upper Midscale (4-Star) and 932 keys as Midscale & Economy (3-Star). By overall distribution, Midscale & Economy (3-Star) dominated the market share with 45% of the overall hotel supply (3,220 keys), followed by Upscale & Upper Midscale (4-Star) with 43% (3,104 keys) and Luxury & Upper Upscale (5-Star) with 12% (896 keys).

An additional 6,749 keys have been identified and will be added to the supply over the next three years, reflecting a 93% increase from 2019, assuming all identified project complete as schedule. 50% of the future supply are Upscale & Upper Midscale (4-Star), 37% are Luxury & Upper Upscale (5-Star) whilst the remaining 13% are Midscale & Economy (3-Star).

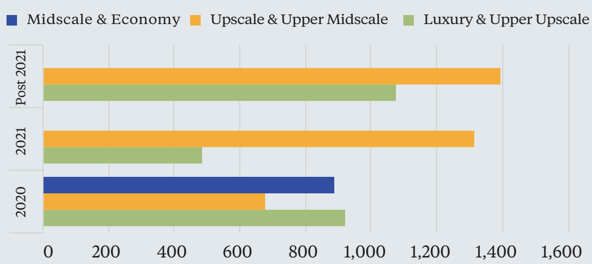
By location, Sangkat Bei has the highest concentration of existing hotels with 46% of the overall supply, followed by Sangkat Boun (45%) and the remaining 9% are distributed across Sangkat Pir, Sangkat Mouy, Koh Rong and Ream.

Figure 27:
Existing Hotel Supply by Classification



Source: Knight Frank Research

Figure 28: Distribution by Year and Classification



Source: Knight Frank Research

Outlook:

The significant influx of tourists to Sihanoukville enabled hoteliers to command high room rates whilst maintaining favourable occupancy rates, leading to a greater number of newly launched mixed use projects incorporating hotel components within their project mix. By 2022, international operators including Accor (Novotel), Wyndham and IHG (Intercontinental) are scheduled to make an entrance into the market.

Whilst the online gambling ban has certainly impacted short term demand for hotel rooms, there is an opportunity for Sihanoukville to cement its position as Cambodia's secondary economic hub whilst also developing into an emerging coastal resort destination, and the medium to long term outlook remains promising.

However, there is a need for an overarching framework and planning policy for future development in Sihanouk Province to ensure its long term sustainability.

RETAIL SECTOR

In line with the growth in the number of residential and hotel developments launched in Sihanoukville, several new retail offerings are in the pipeline and scheduled for completion by 2022.

As at the end of H2 2019, there was one existing shopping mall which completed during the second half of 2018, Furi Time Square Mall, jointly developed by a Singaporean-Cambodian-Chinese consortium. No additional stock was added during 2019. This project was the first shopping mall in Sihanoukville, comprising a net lettable area of 6,000 sq m.

With the significant growth in tourist arrivals recorded between 2017 and 2019, developers saw a gap in the market for international standard retail formats catering to the increasing number of high value tourists in the city.

Subsequently, a number of developers incorporated retail podiums in their mixed use projects to tap into this anticipated demand.

Future incoming retail developments which are currently under construction will contribute an additional 86,711 sq m of NLA, spread across seven projects including D'Seaview, Ocean City, La Tree, Sihanoukville City View, Prince Tian Xi Wan, New Landmark and Prince Huan Yu Mall. All of these projects are scheduled to complete between 2020 and 2022.

Prince Huan Yu Mall, slated to open during 2020, makes up 35% of the future supply, adding 30,000 sq m of NLA into the retail pipeline in Sihanoukville. This five storey mall forms part of a mixed development which also comprises 2,100 condominiums.

With a population in Sihanoukville of 302,887 as at 2019 (based on the General Population Census 2019), the retail space per capita as at H2 2019 was 0.02 per sq m, a relatively low figure comparing to other regional neighbouring cities.

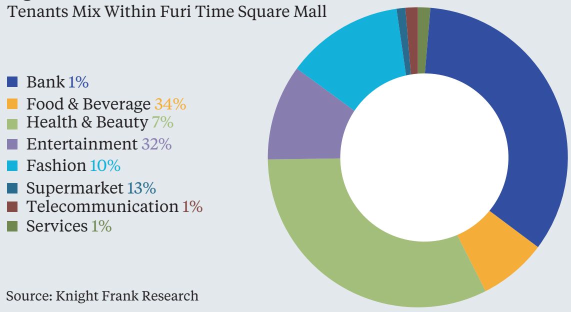
Sihanoukville's booming tourism sector has attracted a number of international brand retailers to debut in this province.

Although Furi Time Square Mall has registered an occupancy rate of close to 100% upon its debut, consumer and business sentiment was noted to be relatively weak, with the exception for its Food & Beverage retailers. Initially slated for Legend Cinema in its pre-leased period, the main anchor tenant within Entertainment segment has now changed to Major Cinema, which is a major Thai-based cinema brand.

Existing Food & Beverage tenants include Starbucks, Café Amazon, HGB Little Sheep, Koi, Miniso, The Pizza Company and Kentucky Fried Chicken (KFC).

Furi time square mall, sihanoukville

Figure 29:
Tenants Mix Within Furi Time Square Mall



Source: Knight Frank Research

Outlook:

The exodus of Chinese expatriates and workers seemed to have grounded the entire local economy to a halt. Buildings, rooms, apartments and condominiums have been vacated and on-going constructions abandoned. This abrupt slow down has affected the all business owners, families and workers locally with the town being no longer a thriving port city that it was just 6 months prior.

Shopping and household demand has declined sharply with the reduction in purchasing power, directly impacting retailers' revenue. Despite being in its infancy stage and with an undersupply of existing retail shopping malls, business sentiment was already weak and now the short term out looks is bleak. The completion of new incoming shopping malls is likely to be delayed until the tourism sector stabilizes. Additionally, E-commerce will continue challenging the retail sector, even for Sihanoukville, as most millennial generation prefer online shopping. Future incoming shopping mall operators should re-invent themselves as retail spend continues to shift online or consider employing professional mall operators with the experience to undertake continuous marketing efforts effective to increase footfalls and boost sales.

INDUSTRIAL SECTOR

Being the country's only deep sea port, Sihanoukville's logistic traffic responded to rapid growth, underpinned by the expansion of the deep sea port terminal at the Sihanoukville Autonomous Port (SAP). Accessibility remains the main criteria for logistic companies and currently, SAP is the only operational deep sea port in Cambodia.

The country has four main logistic gateways; the Sihanoukville Autonomous Port, Phnom Penh Autonomous Port, Bavet Border and Poipet Border. According to Asian Development Bank's report on Cambodia Transport Sector Assessment 2019, among the four main gateways, Sihanoukville Autonomous Port accounted for majority of the import/export activities for the nation, 70% of total exports and 66% of total imports.

Infrastructre is also key to logistic players and the country's first expressway is currently undergoing construction. The expressway will connect Phnom Penh and Sihanoukville, allowing for ease of traffic thus saving time and cost for goods transportation.

The Phnom Penh – Sihanoukville Expressway is a four-lane expressway, scheduled for completion in 2023 with the stage of completion at the end of 2019 at approximately 7% according to the Public Works and Transport Minister.

Despite the issue of Everything But Arms (EBA) agreement hanging on the line, new factories continued entering Cambodia to operate. Data from the Ministry of Commerce shows that the number of garment production factories increased to 51, a 24% increment from 2018.

With the preferential treatment and tax incentive through Everything But Arms (EBA) agreement, Cambodia's largest export is garment and textile products, with most production within Sihanoukville Special Economic Zone (SSEZ) due to its close proximity to the deep sea port and international airport.

As at H2 2019, there are four existing operational SEZs in Sihanoukville; Sihanoukville SEZ (SSEZ), Sihanoukville Port SEZ (SPSEZ), Steung Hav SEZ and Cambodian Zhejiang Guoji SEZ. A proposed Free Trade Zone (FTZ) is also on-going by the same developer / operator of Steung Hav SEZ.

SSEZ is one of China's "Belt and Road" initiatives and most prominent projects.

The entire SEZ accommodates a large proportion of factories covering from textiles to garment, bags and leather products, hardware and machinery and wooden products. This SEZ extends to a land area of 1,113 hectares, with the 1st phase covering 528 hectares. Price of vacant industrial plots on long-term lease is available from US$85 to US$108 per sq m for lease ranging between 50 years to 90 years. Ready-built standard warehouse are also available to lease by the operator with prices ranging from US$2.00 to US$2.50 per sq m over the gross floor area. Other properties available for lease by tenants are markets, apartments, rooms (worker accommodation) and office.

According to the Ministry of Commerce, as at H2 2019, there were 184 registered companies within SSEZ whilst SPSEZ recorded four registered companies. Overall, 121 of the companies are operational, 36 have ceased operation and 31 are non-operational.

Stueng Hav SEZ has been approved with a license for a second international deep sea port. Launched during 2006 by LCH Investment Group, land on long lease is available at US$45 to US$70 per sq m for lease ranging between 10 years to 50 years.

Cambodian Zhejiang Guoji SEZ is a relatively new SEZ located in Prey Nob District. It was initially approved by Council of Development of Cambodia (CDC) in 2018 and commenced operation in 2019. Selling price for prepared industrial land on long lease is available from US$50 per sq m over the land area for 50 years with the option to extend for a further 50 years.

Developments	Lease Tenure	Lease Price Per Sq M Premium Over the Land Area
Sihanoukville SEZ	50 years - 90 years	US$85 - US$108
Sihanoukville Port SEZ	10 years - 50 years	US$55 - US$65
Stueng Hav SEZ	10 years - 50 years	US$45 - US$70
Cambodian Zhejiang Guoji SEZ	50 years / 50 + 50 years	US$50

Outlook:

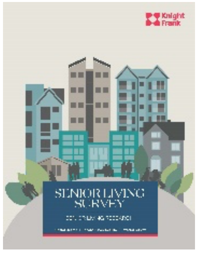
Infrastructure and accessibility remains a critical point for industrial players when considering locations for expansion. With the entire road networks in Sihanoukville undergoing restoration and the on-going Phnom Penh – Sihanoukville Expressway, accessibility will tremendously improve upon completion. Industrial restructuring, upgrade and development in line with Cambodia Industrial Development Policy 2015 – 2025 is well underway, evidently by the commissioning of Shenzhen Urban Planning and Design Institute late 2019 to undertake a Sihanoukville transformation masterplan. The move to shift the main economic driver away from an over reliance on its gaming sector provides this province to diversify and bloom over its industrial, tourism, commercial and residential sectors.

Recent Market-Leading Research Publications

The Global Ultra-Prime Market 2019

The London Report 2020

The Wealth Report 2020



Senior Living Survey

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

Eric Y H Ooi
Chairman
eric.ooi@kh.knightfrank.com
+855 23 966 878

Ross Wheble
Country Head
ross.wheble@kh.knightfrank.com
+855 23 966 878

Law Kheng Fong
Valuation Manager & Advisory
khengfong.law@kh.knightfrank.com
+855 23 966 878

Socheata Ear
Research Analyst
Socheata.ear@kh.knightfrank.com
+855 23 966 878

Hakim Ly
Senior Analyst
hakim.ly@kh.knightfrank.com
+855 23 966 878

Jonathan Baxter
Residential Sale & Leasing Manager
jonathan.baxter@kh.knightfrank.com
+855 23 966 878

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