ECONOMIC SNAPSHOT

US interest rate hikes and money tightening controls in China had little impact on Cambodia’s economic growth during 2017

Despite three interest rate hikes by the US Federal Reserve during 2017, raising the benchmark lending rate to 1.50%, and the continued clamp down on capital outflows from China, Cambodia remained on course to achieve economic growth forecasts for 2017.

According to the Ministry of Land Management, Urban Planning and Construction, the value of construction projects in Cambodia rose more than 22% YoY to US$6.4 billion in 2017. 3,052 projects covering more than ten million square metres were approved by the Ministry during 2017.

China continued to be the main source of investment during H2 2017 and Chinese companies pledged to invest up to US$7 billion in Cambodia during Hun Sen’s visit to Beijing in December 2017. This included commitments from Greenland Holding Group and Henan Transport Investment Group for projects such as the new expressway between Phnom Penh and Sihanoukville, the construction of a satellite city in Phnom Penh, the construction of a tourism centre and the launch of a new commercial bank.

As Cambodia’s economy continues to expand at one of the fastest rates in Southeast Asia, so too are disposable incomes, with Cambodia’s GDP per capita increasing by 9.2% YoY between 2015 and 2016 to US$1,270 – its fastest rate of growth since the global financial crisis (figure 1).

Whilst disposable incomes continued on an upward trajectory, the rate of inflation remained manageable, with the National Bank of Cambodia (NBC) indicating that inflation for 2017 was recorded at 2.9% (figure 2). According to the NBC’s annual report, the moderate increase was attributable to increases in the price of commodities, particularly petroleum and agriculture goods.

All of the above indicators bode well for Cambodia’s real estate sector and, although the general election is set to take place in July 2018, as compared with the run up to previous elections where market activity slowed considerably, the outlook for 2018 is one of continued optimism, with the economy showing no sign of slowing and activity in the real estate sector appearing largely unaffected.

ROSS WHEBLE
Country Head

“The outlook for 2018 is one of continued optimism, with the economy showing no sign of slowing”

FIGURE 1
CAMBODIA GDP PER CAPITA (CURRENT PRICES)

FIGURE 2
CPI YEAR ON YEAR % CHANGE

Source: World Bank

Source: National Bank of Cambodia
Phnom Penh’s office demand continued to grow during the second half of 2017 with the overall occupancy rate recorded at 87.5% in Q4 2017, a y-o-y increase of 4.7 percentage point despite 74,211 sq m of office space coming online over the same period.

The cumulative office supply is estimated to reach 531,726 sq m by 2020, an increase of 49%.

Due to the increased flexibility of landlords, prime office occupancy increased to 70%.

In line with the global trend, we continue to see growing demand for Co-working office space to meet the needs of Cambodia’s SME’s.

**Supplies and Demand**

With the exception of 2014, net absorption of office space has largely kept pace with incoming supply indicating healthy demand within the office sector.

Office supply in Phnom Penh was recorded at 356,079 sq m of net lettable area (NLA) as at H2 2017, increasing by 26% compared with 281,818 sq m of NLA during the same period of 2016. Incoming supply due for completion between 2018 and 2020 was recorded at 175,647 sq m of NLA, an increase of 49% to 531,726 sq m. A further 67,878 sq m of office space has been identified for completion post 2020.

During H2 2017, four office buildings namely: Pipay tower, Legacy building, TH1 building and V-Tower International, added 26,494 sq m to the existing stock. Pipay Tower, owned and occupied by the current popular payment and transaction service company, is a 20 storey office building in close proximity to Olympic Stadium, while Legacy building, TH1 building and V-Tower International are small-scale projects developed by local developers.

By location, 40% of exiting supply is situated in Daun Penh district followed by Chamkarmon (31%), 7 Makara (16%), Toul Kork (6%), Sen Sok (5%), Mean Chey and Chroy Chongvar (1%).

The majority (51%) of the existing office supply is still dominated by Grade C buildings, largely constructed by local developers. Grade B office supply comprises 34% of the existing supply followed by Grade A building (15%).

However, the majority of future supply will be Grade A space, representing 59% of total incoming supply, of which 43% is stratified office space. Grade B offices include two newly identified projects,
Oval office and Keystone Premium office, which were added to the future supply, resulting in 41% of future supply being Grade B office space.

30% (74,160 sq m) of future supply is due for completion in 2018, 31% (75,986 sq m) is due for completion in 2019, 11% (25,500 sq m) in 2020 and the remaining 28% (67,878 sq m) post 2020.

Net absorption of office space increased significantly in H2 2017 compared with the same period in 2016.

The overall occupancy rate in Phnom Penh was recorded at 86.7% in Q3 2017 and 87.5% in Q4 2017, increasing by 0.8% percentage points QoQ and 4.7 percentage points YoY.

The occupancy rate of Grade C office space decreased slightly YoY from 88% in Q4 2016 to 87% in Q4 2017, while Grade B office occupancy rose significantly from 88% in Q4 2016 to 95% in Q4 2017. The average occupancy rate for Grade A office space, Vattanac Capital and Exchange Square, increased to 70% equating to a net take-up of around 18,000 sq m during H2 2017.

As at H2 2017, office take-up was recorded at 29,490 sq m NLA, up by 12% compared with 26,325 sq m NLA in H1 2017. As can be seen in figure 4, with the exception of 2014 when Vattanac Capital Tower completed, net take-up has largely kept pace with incoming supply, indicating healthy demand for new office space in Phnom Penh.

Prices and Rental

Prices of grade A office units in stratified buildings are likely to remain flat due to increasing supply whilst market rents are likely to face downward pressure over the medium term.

Despite the high net absorption of office space recorded during 2017, market rents for office space across all grades are likely to face downward pressure over the medium term, as supply is expected to almost double by 2020.

Monthly Asking rent for prime office space ranged between US$28 and US$38 per sq m per month (excluding service charges and tax). During H2 2017, Grade B and C asking rents remained unchanged; Grade B rent ranged between US$18 to US$25 per sq m per month, whilst Grade C office rents ranged between US$8 to US$15 per sq m.

The average asking rent across all office grades was recorded at US$16 per sq m per month as at H2 2107.

Prices of stratified office units remained flat, ranging from US$2,000 for Grade B units to as high as US$4,500 per sq m for Grade A units.

Office Sector Outlook

The number of multinational companies looking to set up operation in Cambodia is expected to increase in the coming years, especially as Cambodia continues to attract investment from China.

We are also seeing increasing interest from companies from outside the Asia region, which is encouraging for the long term growth prospects of the Cambodian economy and will underpin demand for office space in Phnom Penh over the medium and long-term.

In view of the above, and despite the scheduled completion of new office space over the coming years, occupancy rates are forecast to remain stable at approximately 80% for Grade A buildings and 90% for Grade B buildings.

The outlook for Grade C office buildings is not so optimistic and we expect to see landlords undertake extensive refurbishment works to keep pace with the market or perhaps demolish existing buildings for redevelopment.

To maintain occupancy rates in view of increasing supply, rents are forecast to remain relatively flat, with the likelihood of moderate declines and increasing incentives such as rent free periods and stepped rents.

Of note during H2 2017, Prince Real Estate (Cambodia) acquired Phnom Penh Tower from Hyundai Engineering (Cambodia), which is the largest office transaction to-date in Cambodia.

This transaction, along with the previous sale of Golden Tree Tower (now V-trust Tower), indicates improving liquidity in the market and has set a benchmark for yields of Grade B office buildings in Cambodia, helping to improve market fundamentals by enabling more accurate asset valuations and increasing investor confidence in the sector.

FIGURE 5
CUMULATIVE SUPPLY BY YEAR

![Cumulative Supply by Year](image-url)
**PHNOM PENH RETAIL SECTOR**

Makro, a joint venture between Thailand’s Siam Makro and Cambodia’s LYP Group, introduced Cambodia’s first Cash & Carry retail format during H2 2017.

**Supply and Demand**

With the opening of Makro in December 2017, Phnom Penh’s retail supply increased to 174,404 sq m of net lettable area.

As Phnom Penh’s retail landscape continues to evolve, Siam Makro opened its first outlet during H2 2017 taking the existing supply of retail space to 174,404 sq m of NLA as at the end of H2 2017. Typically, in international markets, goods and produce in Cash & Carry outlets can only be purchased by businesses, however, Makro Phnom Penh is open to all and has been well received by consumers, marking the opening of Cambodia’s first Cash & Carry retail format. The additional retail space equated to a YoY growth of 11.5% in the existing supply.

Other notable market movements included the official reopening of Sorya Centre point, featuring a unique bazaar concept with miniature replicas of some of the city’s key landmarks including Independence Monument, Central Market and the railway station.

In contrast to the nominal growth in retail space during 2017, 2018 will see the largest supply on record coming into the market with the scheduled completion of 6 retail malls, including Aeon 2 and Parkson City Centre, contributing 196,156 sq m of NLA; an increase in supply of 113%.

By 2020, if all future developments complete as scheduled, Phnom Penh’s retail space will increase to 592,475 sq m of NLA. Of the future supply scheduled to enter the market, an increasing number of malls are being constructed by some of Cambodia’s leading developers in a bid to compete with the increasing number of international operators entering the market.

The occupancy rate across all segments increased marginally YoY, by 0.8 percentage points to 91.1%. Prime shopping malls recorded an occupancy close to 98% compared with 85% recorded for Secondary retail malls.

**FIGURE 6**

**PHNOM PENH SUPPLY AND DEMAND OF RETAIL SPACE**

Source: Knight Frank Research
Despite the significant supply of retail space coming online in 2018, the overall vacancy is only forecast to increase to 15% in 2018 due to the strong pre-commitment of both Aeon 2 and Parkson City Centre, which will be anchored by Parkson.

In terms of demand for retail space, we continue to see new international retailers enter the market, and this is expected to grow exponentially over the medium term as Cambodia’s socio-demographics continue to improve and the Kingdom becomes an increasingly attractive proposition for major retail brands.

However, we anticipate that international Asian brands will continue to dominate the market (figure 7) over the short and medium-term due to a loosely regulated market and barriers to entry which deter Western brands from setting up operation in the Kingdom.

The above notwithstanding, whilst occupancy rates are forecast to remain relatively healthy, the retail environment will become increasingly challenging for operators as the retail space per capita in Phnom Penh is set to almost triple by 2020.

Although the retail space per capita will still be comparatively low compared with neighbouring countries, the increase in supply will outpace growth in GDP per capita and retailers will face fierce competition to capture market share of consumers, with the majority of consumer spending over the short-term still heavily skewed toward Food & Beverage and Entertainment.

**Prices and Rental**

Average rents for retail units (below 100 sq m) in prime shopping centres remained flat during H2 2017, with the only new completion in 2017 being Honkong Land’s Exchange Square. The average rate from Prime retail space as at the end of H2 2017 was recorded at US$28 per sq m per month.

Average rents for Secondary malls also remained flat, with marginal declines noted in some retail malls as competition intensified. The average rent within Secondary malls was recorded at US$18 per sq m per month as at the end of H2 2017.

The incoming supply will likely impact rents as landlords seek to retain existing tenants.

**Retail Sector Outlook**

As with the opening of Aeon’s first shopping mall in 2014, there is much anticipation for the opening of Aeon 2 in 2018 and consumers, as well as industry experts, are keen to see which new brands and concepts will be introduced within the mall.

Equally, assuming the mall completes in 2018, it will be interesting to see which brands open in Parkson City Centre, the market positioning of the mall and how it will differentiate itself to compete with Aeon. Malaysian based Golden Screen Cinemas has already confirmed as a major anchor tenant for the shopping mall.

The Bridge retail podium is also scheduled for completion in 2018 and, whilst supplying only a relatively small amount of retail space, its proximity to Aeon Mall will necessitate the need for a different tenant and merchandise mix to drive traffic to the mall.

Despite a potential short-term oversupply situation in the retail sector, Cambodia’s rapid growth continues unabated and the medium to long-term prospects for the retail sector in Cambodia are very positive, with an increasingly ‘brand conscious’ consumer market and rising disposable incomes driving demand for retail space from both local and international brands.

The increase in supply is also likely to place downwards pressure on rental rates which, in turn, will lower the cost of doing business for retailers in Phnom Penh and underpin demand for new retail space.

###Figure 8

**Regional Retail Space and GDP Per Capita as at the End of H2 2017**

<table>
<thead>
<tr>
<th>Cities</th>
<th>Retail Space Per Capita (sqm per person)</th>
<th>GDP Per Capita (USD) as at 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>1.08</td>
<td>$52,961</td>
</tr>
<tr>
<td>Bangkok</td>
<td>0.80</td>
<td>$5,908</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>0.71</td>
<td>$9,503</td>
</tr>
<tr>
<td>Metro Manila</td>
<td>0.50</td>
<td>$2,951</td>
</tr>
<tr>
<td>Jakarta</td>
<td>0.44</td>
<td>$3,570</td>
</tr>
<tr>
<td>Ho Chi Minh City</td>
<td>0.12</td>
<td>$2,186</td>
</tr>
<tr>
<td>Hanoi</td>
<td>0.13</td>
<td>$2,186</td>
</tr>
<tr>
<td>Phnom Penh</td>
<td>0.06</td>
<td>$1,270</td>
</tr>
</tbody>
</table>

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**Note:** GDP per capita is at a country level at current prices

**Source:** World Bank / Knight Frank Research

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**Source:** Knight Frank Research
The serviced apartment sector is becoming increasingly competitive, largely attributable to the completion of large-scale condominium projects during 2017.

**Supply**

The opening of Casa Meridian Residence Managed by The Ascott Limited marks the entry of the first global serviced apartment operator in Cambodia

The total supply of serviced apartments was recorded at 4,905 at the end of H2 2017, reflecting an increase of 16% compared with the same period in 2016. 350 units were completed in H2 2017, all of which are located within the City Centre Districts of Chamkarmon, Daun Penh, 7 Makara and Toul Kork. The majority (78%) of the newly completed units were categorised as Mid-tier, followed by High-end units (15%) and Mass-market units (7%).

The only high-end projects to complete during H2 2017 were Granferte, by Leo Palace 21, providing 56 units in Toul Kork district and Casa Meridian Residence providing 75 units in Tonle Bassac.

Chamkarmon continues to be the most popular residential area, in which 55% of the overall supply of serviced apartments are located, followed by Daun Penh (13%), Toul kork (13%), 7 Makara (8%), Chroy Changva (8%), Sen Sok (2%) and Meanchechey (1%).

As at H2 2017, 57% of the monitored properties formed the Mid-tier segment, 19% were High-end units with the remaining 24% making up the Mass-market category.

Approximately 1,092 units are forecast to come online by the end of 2018 and a further 150 units are scheduled for completion by 2019, reflecting an increase in the existing supply of 25% compared with H2 2017. This trend of a declining future supply of serviced apartments is expected to continue over the short-term due to the significant incoming supply of condominiums over the coming years.

**CUMULATIVE SUPPLY**

Source: Knight Frank Research
Rental
High-end monthly rental rates remained stable despite some projects offering discounts and special promotions

Despite some landlords offering discounts and special promotions, monthly rental rates within High-end projects remained stable, ranging between US$18 to US$30 per sq m per month as at the end of H2 2017. Whilst the average rental rates of Mid-tier units continued on a downward trend ranging between US$8 to US$16 per sq m per month.

Occupancy
Notwithstanding the increasingly competitive environment due to the completion of condominium projects, the serviced apartment average occupancy rate was maintained at 70%.

The majority of demand for serviced apartments is still dominated by expatriates, which was the key driver underpinning occupancy rates.

The overall occupancy rate of serviced apartments during H2 2017 in Phnom Penh was recorded at 70%. This stability was due to the strong performance of the Mid-tier and Mass-market segments, offsetting declining occupancy rates within the high-end segment due to increasing competition.

High-end units registered an average occupancy of 61%, while Mid-tier and Mass-market units commanded occupancy rates of 80% and 84%, respectively.

Chamkarmon still remains the most desirable area for expatriates, which registered the highest occupancy rate at 86%, followed by Daun Penh, and 7 Makara at 82% and 81% respectively.

Serviced Apartment Sector Outlook
Despite the increasing supply of condominiums, occupancy rates remained stable. However, rental rates continued to face downward pressure.

The significant increase in supply of condominiums during 2017 was expected to impact heavily on the serviced apartment sector, however, operators were able to maintain average occupancies, although at a cost, with average unit rates continuing on their downward trend (figure 11).

The most noticeable impact was within the High-end and Mid-tier segments, with operators lowering rental rates in order to maintain occupancy rates.

Despite strong pressure coming from the completion of condominium projects over the medium term, demand for serviced apartments is expected to remain strong, with expatriates appreciating the service offering provided by serviced apartment operators.

The optimism within the sector is apparent by the official opening of Casa Meridian Residence Managed by The Ascott Limited

The Ascott Limited is the world’s largest serviced apartment operator and with it brings international standards and quality of service. With another two projects confirmed in Phnom Penh under The Ascott Limited and the entry of more international operators, local operators will need to improve their service offerings to remain competitive which can only be a good thing for the market.

H2 2017 also saw the entry of Japanese property firm, Leo Palace 21, opening Granferte Serviced apartments in Toul Kork. Costing approximately US$15 million to construct, the 14-storey serviced apartment provides 56 units to cater to the demand from foreign business executives and short-term travellers. It is the first internationally operated serviced apartment development in Toul kork.

Whilst the serviced apartment sector is likely to face short-term volatility in terms of occupancy rates and unit rates, the medium to long-term prospects for the sector remain positive as tourism arrivals to Cambodia continues on its upward trajectory and an increasing number of multinational companies look set to enter the market, underpinning demand for serviced apartments across all segments of the market.
Sales of high-end condominiums continued to soften, however, developers remained positive largely due to the growing inflow of Chinese investors.

**Supply and Demand**

As at H2 2017, 7,413 units across 34 projects were recorded in the existing supply; an increase of 55% compared with H1 2017

Out of 7,325 units across 26 projects scheduled to complete by the end of 2017, seven projects providing 2,619 units were completed; 64% of anticipated supply rolled over into 2018. The seven projects included: Bali scenery 2, 378 units; Time Square, 78 units; Diamond Home 1, 78 units; Orient Ritz, 256 units; Olympia City C1 & C2, 779 units; Bali scenery 3, 1,000 units; and The Element, 50 units.

54 projects providing 27,021 units were identified within the future stock due for completion between 2018 to 2021, resulting in an increase of 369%.

4,206 condominium units were launched during the second half of 2017, the largest number of units since H1 2016, largely due to the launches of large-scale projects The Parkway and CEO KT Pacific, contributing 1,500 units and 866 units respectively.

The majority (51%) of new launches were in the City Centre districts, mostly located in Chamkarmon (23%, 972 units), 7 Makara (20%, 866 units) and Toul Kork (7%, 286 units). 49% of new launches were located in the Suburban areas, with the majority (36%, 1,500 units) located in Russey Keo, followed by Meanchey (10%, 400 units) and Sen Sok (4%, 182 units).

In contrast to H1 2017, where the majority of new launches were smaller-scale projects with between 100 to 150 units, the second half of 2017 saw the launch of large-scale projects within the Mid-tier segment, comprising between 400 to 1,500 units.

Sales of newly launched projects during H2 2017 was recorded at 23%, a decline of 22 percentage points compared with H1 2017, and 30 percentage points compared with the same period in 2016. However, the overall number of units sold increased by 184% to 940 units

As at H2 2017, the overall sales rate of monitored and available stock softened marginally to 12%, representing a decline of 8 percentage points compared with the same period in 2016. This decline was largely due to an oversupply in the high-end segment with limited domestic demand. The take-up of Mid-tier projects with units priced below US$60,000 remained healthy, underpinned by both domestic and foreign demand.

**Prices and Rental**

Prices of Mid-tier units showed a slight decrease of approximately 3% annually, meanwhile prices of high-end units have remained flat.

3 newly launched Mid-tier projects in H2 2017, located in suburban areas such as Urban Loft, The Parkway, and Paramount Residence, recorded asking prices between US$31,000 to US$72,000 per one bedroom unit. However, the asking price of Mid-tier units located in central locations, such as OR condo, Prince Modern Plaza and XO condo, had marginally higher pricing, with units starting from between US$43,000 to US$78,000 and smaller net saleable areas of between 29sq m to 40sq m for one bedroom units.
The pricing of CEO KT Pacific, a joint venture project by KT Pacific Group and LiXin Group, located in 7 Makara district, starts from US$2,800 per sq m of net saleable area.

The average asking price of Mid-tier units during H2 2017 was recorded at US$1,600 per sq m, a decline of 3% YoY. Meanwhile the average pricing of High-end units remained flat at US$3,000.

As the supply of condominiums increased significantly during H2 2017, average asking rents continued to face downward pressure; the average monthly rent in prime locations ranged between US$15 to US$25 per sq m while outer areas commanded rents of between US$8 to US$12 per sq m.

Condominium Sector Outlook

Despite the continued growth of the middle-income class and rapid urbanisation rate, local demand is predominantly for affordable condominium units priced below US$40,000.

Developers continued to entice local buyers by offering attractive incentive schemes and payment plans such as adopting 0% deposits, longer installment periods, buy-back schemes and providing fully furnished units.

Signalling an increasingly competitive market, developers are coming up with increasingly inventive marketing schemes. XO Condo and Golden one are now offering new buyers free units to live in until their purchased unit has completed.

Whilst it is apparent that there is now a glut in the high-end segment, demand for units priced below US$60,000 remains healthy, with units priced below US$40,000 attracting many Cambodian buyers, both investors and owner occupiers.

To cater to the local market, developers are launching projects in outside city districts, enabling them to target the domestic market by offering more affordable units.

There continues to be a large disparity between monthly disposable incomes and the pricing of high-end units; for the market to be sustainable over the medium and long-term, demand needs to be driven predominantly by the domestic market, and the launches of more affordable projects is much needed in Phnom Penh.

Nonetheless, developers still have an optimistic outlook toward the high-end segment, largely due to the increasing number of Chinese investors and capital inflow into Cambodia, with some investors acquiring whole blocks within projects.

Overall, whilst there are concerns of an oversupply within the high-end segment, we do not foresee this having a significant impact on the overall condominium sector, save as for more competitive rental pricing which will assist in lowering the cost of living in Phnom Penh and contribute to a more competitive cost of doing business in the Kingdom.

In terms of market prices, we anticipate a period of stagnation as opposed to a pricing correction in the high-end segment, with the majority of buyers being cash investors and able to hold on to their units until the sub-sale market becomes more robust and domestic demand increases.

FIGURE 14
QUARTERLY SALES OF MONITORED AND AVAILABLE CONDOMINIUM UNITS (1Q2015-2Q2017)

Source: Knight Frank Research
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