

Prime Phnom Penh Development Land Index



Q2 2024 Edition

Knight Frank's Prime Phnom Penh Development Land Index provides a quarterly snapshot of prime residential and office land prices across the capital's five city centre districts

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The price correction that started in 2020 showed signs of stabilising during H1 2024, albeit prices still registered Q-o-Q declines

- ▶ Knight Frank's Prime Residential Development Land Index registered a decrease of 1.4% between Q1 and Q2 2024 while the Prime Office Development Land Index registered a decrease of 2.9% over the same period.

However, whilst the market showed signs of stabilising with price declines levelling out toward the end of 2023, according to Knight Frank's Prime Phnom Penh Development Land Index, both prime residential and office land prices recorded Q-o-Q declines during Q2 2024.

Activity

The low transaction activity witnessed during 2023 continued into H1 2024, with market activity remaining subdued despite GDP growth projections for 2024 being higher than 2023.

2023 proved to be a challenging year for the development land market, attributable to a number of factors including: a cautious global macroeconomic and geopolitical outlook, the impact of Cambodia's general election held in July, increasing inflation and high interest rates, and a general oversupply scenario in Phnom Penh, impacting on market prices and rents.

Persistent global challenges continued to impact the Cambodian economy across all sectors, including the land sector. As of Q2 2024, average prime residential and office land prices declined by 34.5% and 35.7%, respectively, compared with Q2 2020 prices, when the Covid-19 outbreak was first announced and was starting to take hold.

Despite the above challenges, according to Statista, the volume of the real estate market in Cambodia is expected to expand by 1.6% per annum between 2024 and 2028, reaching a value of US\$639.50 billion by 2028. This is dominated by residential real estate, accounting for 92.3% of market volume.

Prime residential and office land prices declined by 1.4% and 2.9% Q-o-Q, respectively whilst annual prices declined by 5.8% and 2.4%, respectively.

Outlook

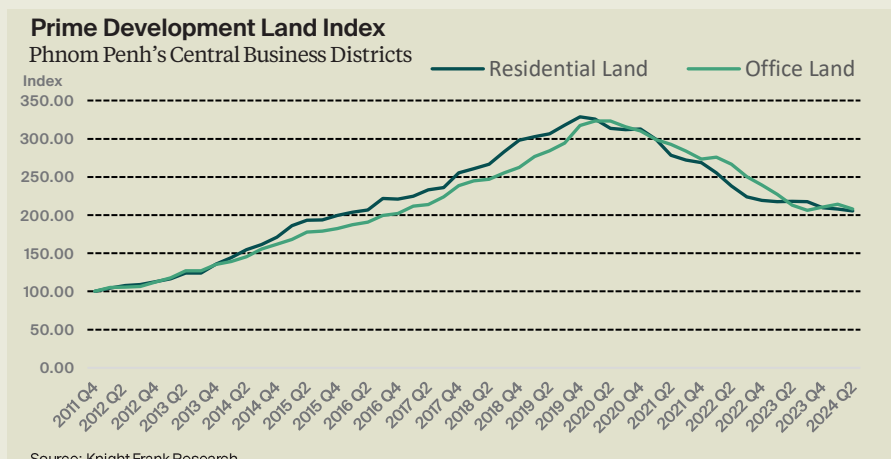
Although land transaction activity remained below projected volumes during H1 2024, we expect to see an increase in investment activity during the second half of the year, underpinned by growth in both exports and international tourist arrivals, increasing levels of FDI into Cambodia as well as an uptick in domestic activity.

With land prices nearing the bottom of the downward cycle, there are now good opportunities for investors to acquire land at heavily discounted prices compared with pre-pandemic prices,

However, the uncertain macroeconomic and geopolitical environment, and high interest rates will continue to impact investor sentiment over the short-term.

"While the short-term prospect poses challenges, the ongoing market correction presents opportunities for developers to acquire more affordable land for development."

Hakim Ly, Associate Director of Research & Consultancy, Knight Frank Cambodia



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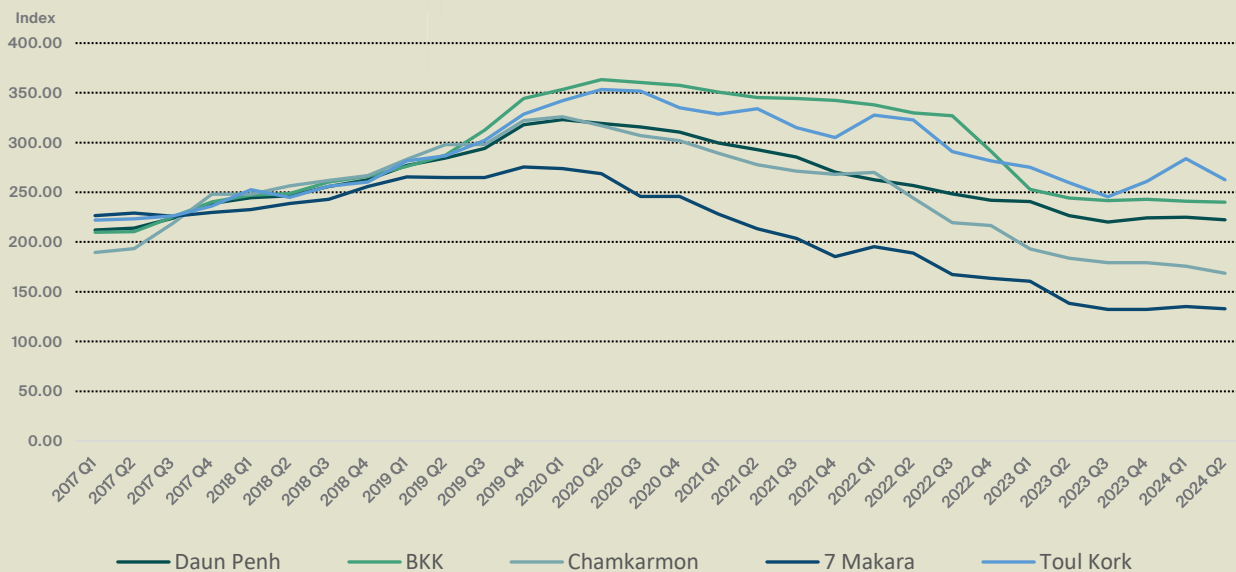
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Land Transactions

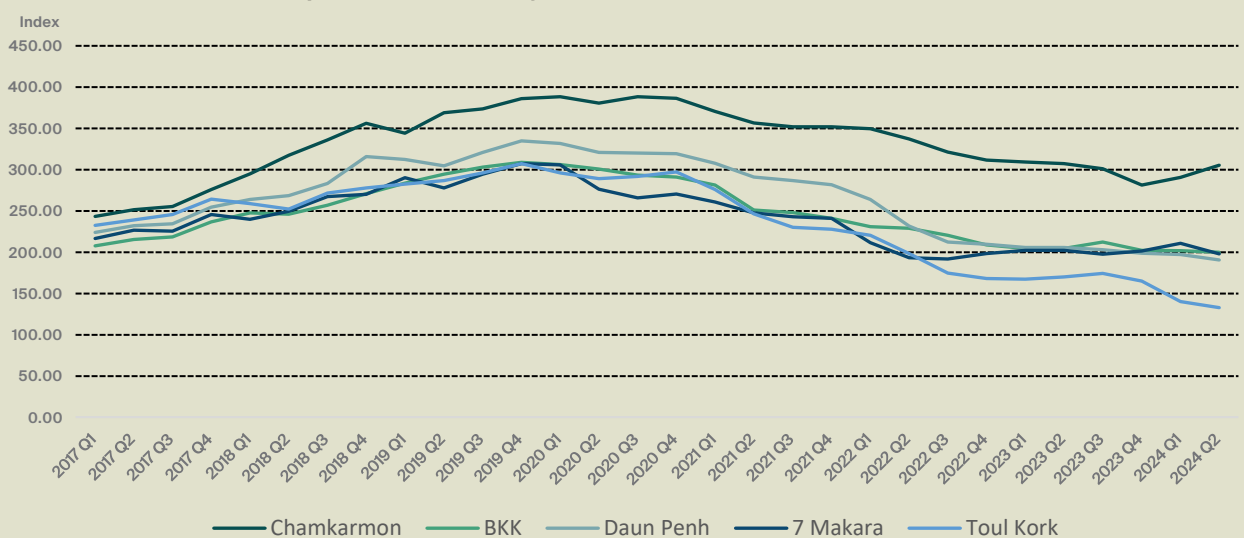
Address	Development	Buyers	US\$ (mil)	US\$ / sq m Land	Date
Chroy Changvar	Residential	Local	4.6	2,150	2021
Toul Kork	Office	Local	10.7	2,390	2022
Toul Kork	Residential	Local	1.9	2,500	2022
Meanchey	Office	Local	20.3	2,300	2023

Prime Office Development Land Index by District



Source: Knight Frank Research

Prime Residential Development Land Index by District



Source: Knight Frank Estimate

Methodology

The land prices in all data sets are derived using a repeat residual valuation methodology.

This commonly adopted methodology in the valuation and development industry essentially looks at what a reasonable developer would be expected to pay for development land, given the potential scheme's gross development value less costs (construction, professional, contingencies, and financial), required profit, acquisition costs, and relevant taxes.

For each market, we have selected a number of prime sites for which we carry out the exercise. These are existing sites within the prime districts of the market. They are perhaps selected because they have recently transacted or it may be a plot that is currently on the market; most importantly, they accurately represent the prime development market for each sector.

If over the coming quarters, the sites undergo development, and are built upon, we will continue the exercise assuming the land was clear and development was possible. The exercise will be based on existing planning parameters; plot ratios, height restrictions, site coverage or prevailing market norms if these are not available. However if any of these change over time, the models will be adjusted to reflect this.

For the residential development land indices, 100% residential apartment (condominium) developments have been assumed; with car parking provision in accordance with local development guidelines. For the office development land index, we have assumed a 100% commercial development in the CBD or other prime office areas. For the purposes of this exercise we are assuming usage to be primarily office, with a smaller element of retail usage on the ground floor or as a podium depending on local market and environmental considerations.

For our calculations of the gross development value, we have used our proprietary databases that track the prime residential and office markets, prices, rents, and yields (cap rates). We have relied on our own internal construction cost data. Finance costs are based on the local market's prevailing cost of development finance.

A check procedure with our valuation teams has also been adopted. We analyse any recent transactions in the market (if there have been any) to ensure that our indices accurately reflect the land market.

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



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