

Cambodia

Real Estate

Highlights



H1 2023 Edition

Knight Frank's half-yearly review of market trends in the Cambodia real estate market

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► Economic Snapshot

The Cambodian economy is expected to continue in its recovery with GDP expected to grow at a rate of 5.5 percent in 2023, increasing to 6.0 percent in 2024 according to the Asian Development Bank.



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Within the first half of the year, Cambodia has managed to continue its growth trajectory from 2022. Led by strong recoveries in tourism, the economy is expected to grow at 5.5% during 2023, according to both the Asian Development Bank (ADB) and the World Bank.

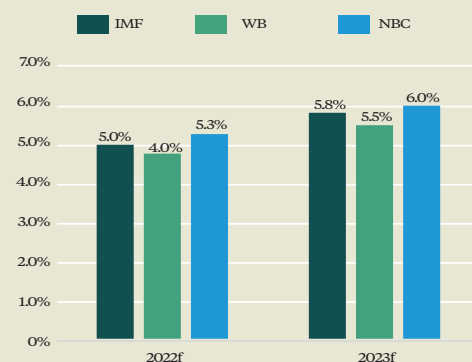
This year, the SEA Games marked a historic occasion for the nation as Cambodia hosted the event for the first time in 64 years, followed by the 12th ASEAN Para Games, in the newly-constructed Morodok Techo National Stadium.

The event aimed to bring half a million tourists to the country, further boosting its already fast recovering tourism industry. The Ministry of Tourism recorded 1.2 million foreign arrivals from the first three months of 2023 – seven times the arrival count during the same quarter in 2022. Overall, the tourism sector is expected to grow 7.3% in 2023, according to the Asian Development Bank.

Slowed global economic growth, however, is weakening external demand for manufactured goods, especially from Cambodia's main export markets. The World Bank expects industrial output growth to slow to 5.8% in 2023 as total goods exports declined by 2.4% y/y in the four months of 2023. Regardless, new trade agreements and policy reforms are expected to reaccelerate industrial growth output to 7.8% in 2024, according to ADB.

Despite the overall decrease in exports, export of fish and other agricultural products increased by 49% thanks to increased access to regional markets fostered through new trade deals.

Figure 1 GDP Growth Forecast



Source: National Bank of Cambodia, International Monetary Fund, World Bank

The Cambodian economy is forecasted to expand despite the global economic slowdown and upcoming general election, largely led by the tourism recovery.

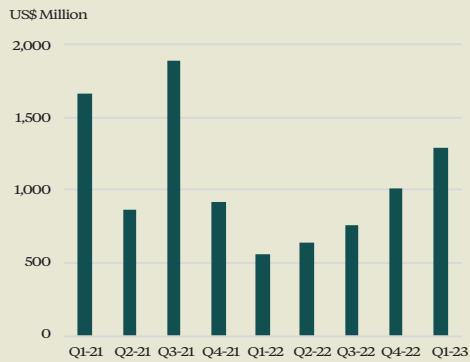
The drop in inflation between Q4 2022 and Q1 2023 indicates the economy may be entering a recession. June last year saw peak inflation at 7.8% y/y which subsequently declined, even reaching 0.7% in March 2023 before increasing to 1.07% y/y in April, owing to the stabilisation in food and energy prices. Health and education prices have seen the most stability since the start of this year.

According to World Bank data, approved FDI projects for the first two months of 2023 totalled US\$156 million, indicating a 90% q/q decline in foreign investment interest which likely stems from general investor caution over the elections taking place in July. This decline comes after the noteworthy US\$3.2 billion in FDI project approvals in 2022.

Despite a decrease in construction approvals, approved construction permit values rose to US\$1.3 billion within the first quarter of this year, already making up 43% of the total value from the whole of 2022 and constituting a 127% q/q increase.

Over the medium term, Cambodia's economic outlook remains positive on the back of strong tourism recovery, free trade agreements coming into effect, and much anticipated infrastructure development projects, including planned projects to improve transportation connectivity. The economy also stands to benefit from stronger-than-expected global economic growth which could ease current export concerns.

Figure 2 Approved Construction Permit Values



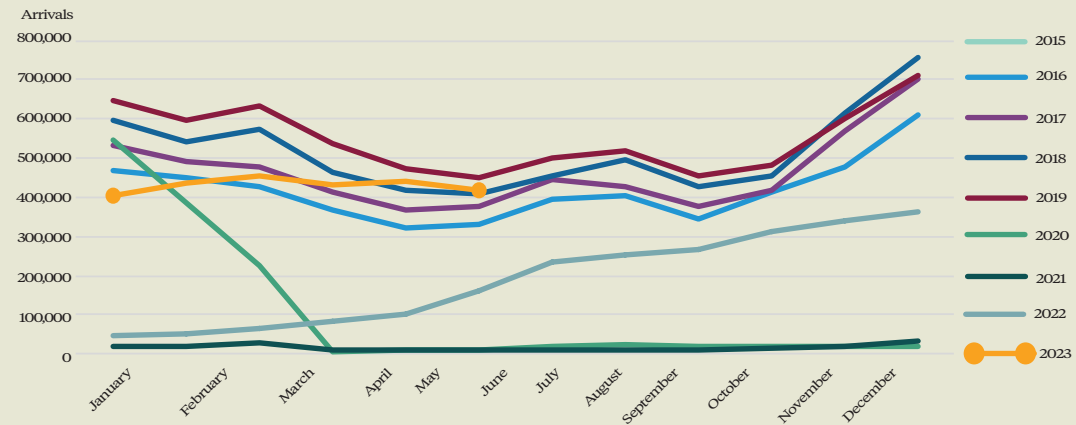
Source: Ministry of Land Management and Construction

Figure 3 Construction Approvals



Source: Ministry of Land Management and Construction

Figure 4 Seasonality of International Tourist Arrivals - Cambodia



Source: Ministry of Tourism

Phnom Penh Office Sector

The office sector recorded a 1.8% growth in cumulative supply during H1 2023 compared with H2 2022, with one new completion added to the existing supply.

Supply and Demand

As of H1 2023, the total existing supply of office space was recorded at 917,378 square metres of net lettable area (NLA). Of this total, 653,810 square metres was centrally-owned office space and the remaining 263,568 is strata title office.

Chip Mong Tower, a new mixed-use project including centrally-owned office space, completed in Q1 2023. The grade A office space has an area of approximately 8,776 square metres NLA across nine levels. Located on Russian Boulevard, Chip Mong Tower comprises a retail podium, grade A office and a Fairfield by Marriott hotel over 45 floors at a total height of 185 metres. This development is undertaken by Chip Mong Group.

Combining both centrally-owned and strata-title offices, the distribution of office space by grade is still dominated by grade B offices, with a market share of 46%. This is followed by grade C (31%) and grade A (23%) offices. The distribution of office grading indicates that the market remains price sensitive, with demand for grade A office space limited.

In terms of location, the ratio distribution of office between City Centre and Suburban areas stands at 82:18, with the majority concentrated in the city centre.

As indicated in Figure 5, Daun Penh has the largest share at of office space at 25%, followed by Chamkarmon (23%), Boeng Keng Kang and Sen Sok (13% each), 7 Makara (12%), Toul Kork (9%), Chroy Changvar (4%), and Meanchey (1%).

With lower population densities and limited infrastructure, Suburban locations continue to underperform despite increasing traffic congestion in the city centre.

Key findings

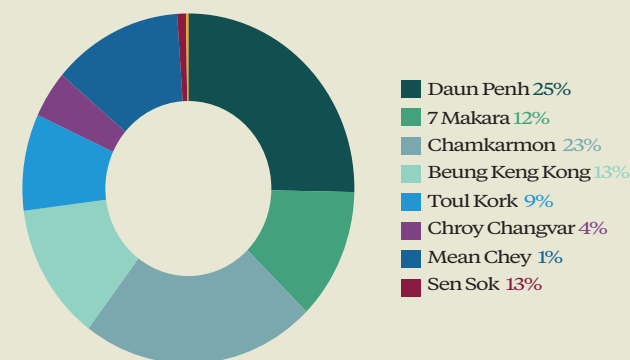
The total existing supply of office space was recorded at 917,378 sq m NLA, with stratified office space now making up 29% of total supply.

Grade B offices have the largest share of the market at 46%, followed by Grade C (31%), and Grade A offices (23%)

The majority of office space in Phnom Penh is located in the city centre, with Daun Penh and Chamkarmon districts having the highest concentration of office space.

There was one newly announced mixed-use project, Norodom Business Center, that will provide 9,216 sq m of grade A office space alongside Cambodia first Pan Pacific hotel.

Figure: 5 Distribution of Existing Office Supply by District



Source: Knight Frank Research

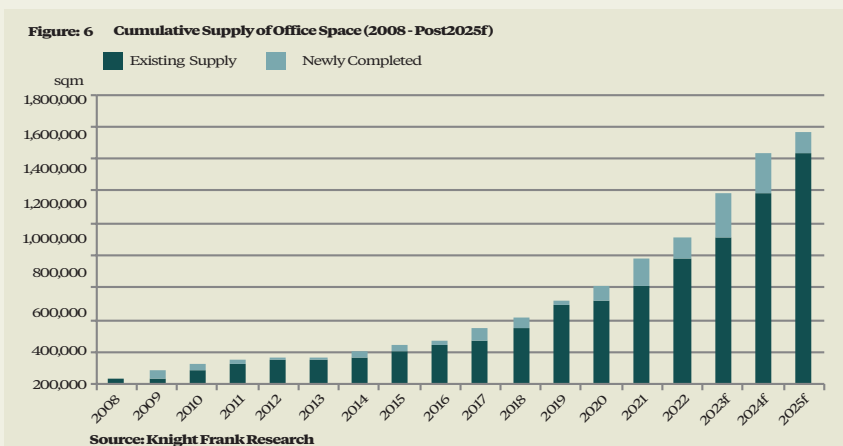
H1 2023 saw the launch of a new flagship mixed-use development, Norodom Business Center (NBC). Developed by TP Moral Group, this 28-floor mixed-use building will include a luxurious Pan Pacific 5-star hotel and premium grade A office space situated along Phnom Penh’s premier road, Norodom Boulevard in Daun Penh district. The project will contribute around 9,216 sq m NLA of office space once completed.

The launch of NBC increased the future supply of centrally-owned office space in Phnom Penh, with an estimated total of 313,285 sq m NLA in the development pipeline. With an additional 337,185 sq m NLA of strata-title owned office space, the total future supply is estimated at 650,470 sq m NLA to be completed by 2028.

Among the future supply, there is 588,333 square metres of grade A space, accounting for 90% of the supply. Grade B office makes up the remaining 10% of the future supply, with a total NLA of 62,137 square metres. There was no Grade C office space identified within the development pipeline. Whilst grade B and grade C dominated the existing supply, if all projects complete as scheduled, grade A will make up the bulk of the Phnom Penh office supply by 2028.

In terms of geographical distribution of the future office supply, the majority (34%) is located in 7 Makara. This is followed by Chamkarmon (28%), Daun Penh (21%), Toul Kork (8%), Boeng Keng Kang (6%) and Meanchey (3%).

As shown in Figure 6, if all future supply completes as scheduled, the total cumulative supply will reach 1,567,849 sq m of NLA. This is a significant increase of more than 300% since 2018.



With the current vacancy rate already at 41%, we expect the market to become increasingly competitive with landlords trying to secure tenants.

Prices and Rental

In view of the significant supply of office space and stunted demand growth, average office rents have declined significantly, particularly for grade A space as newly completed buildings have been offering rents from a low as US\$10 per sq m/month compared with pre-Covid grade A rents starting from US\$23 per sq m/month.

Currently, grade A office starting rents range between US\$10 to US\$24 per sq m/month Grade B office starting rents range in price from US\$8 to US\$17 psq m/month whilst grade C rents start from US\$6 p sq m/month.

Office Sector Outlook

The Royal Government of Cambodia has taken steps to boost foreign investors’ confidence in the real estate sector. In early 2023, the government issued Sub-Decree No. 50, which aims to enhance the effectiveness and transparency of management and inspection of the real estate development business. This new regulation is expected to improve investor confidence in the sector.

In addition, the Financial Action Task Force (FATF), a global money laundering and terrorist watchdog, removed Cambodia from its grey list of countries with strategic Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) policies implemented by the Cambodian government. This is a significant achievement for the Kingdom, and it is expected to encourage foreign investment and more businesses to establish or expand their offices in Phnom Penh.

These factors are expected to have a positive impact on demand for office space in Phnom Penh over the medium and long-term. However, the short-term outlook is one of continued volatility in line with the global macroeconomic and geopolitical outlook.

With significant incoming supply entering the market and limited demand growth, both vacancy rates and rents will continue to face downward pressure and the sector enters an oversupply scenario.

Whilst not ideal for landlords, we expect to see a number of significant office relocations as tenants take advantage of competitive rental rates and attractive incentives.

Phnom Penh Retail Sector

The Southern districts of Phnom Penh continue to display promising potential for the retail sector with another newly launched retail mall; Mean Chey Avenue Community Mall in Meanchey District

Supply and Demand

Occurring once every five years, Cambodia's property market displayed muted performance in the months leading up to 2023 General Election being held on July 23. The subdued activities notably impacted the retail sector, albeit this was somewhat offset by the rebound in tourism and the 2023 Southeast Asia Games hosted in Cambodia during May.

Despite the slow-moving market, Knight Frank recorded an increase in the existing stock during H1 2023, bringing the total retail stock to 826,725 sq m of NLA. The figure represents a Y-o-Y growth of 3.3% resulted from the opening of three new retail schemes.

The three completions were The Peak Bluebell Mall, The Ground Market and K Ground Market. The projects provided an additional supply of 24,154 sq m, 3,329 sq m and 2,000 sq m of NLA, respectively. Currently, 54 existing retail projects are distributed across the capital.

In recent years, the Phnom Penh retail market has evolved continuously, introducing numerous innovative projects. Among the newly emerging trends is The Ground Market, a popular food garden by Urban land located in Chbar Ampov. Opened in Q2 2023, it is an elevated next generation community mall that focuses on promoting local and affordable street food selling within food carts/trucks. Built on 10,000 sq m of land with around 3,330 sq m of build up area, The Ground Market is advertised as a public space to enjoy, relax, meet with friends and listen to music with the open-air retail surrounding a central green park.

The Peak retail mall is part of a mixed-use project that includes residential and office components, as well as the soon-to-be-opened 5-star Shangri La hotel. Operated by Bluebell Group, a leading luxury brand distributor in Asia, the mall is positioned as a luxury life-style offering that will see the entrance is LVMH into the market, amongst other new-to-market luxury brands.

The K Ground Market is a supermarket that sells all things Korean; it has everything you need to enjoy Korean culture and also to cater to the large Korean expatriate population in Phnom Penh.

As of H1 2023, Sen Sok continued to rank as the leading district with the biggest market share of 30%, a figure slightly below the previous reporting period. It is followed tightly by Mean Chey (23%), Chamkarmon (15%), 7 Makara (11%), Daun Penh (8%), Toul Kork (3%), Chbar Ampov (3%), Chroy Changvar (3%), Russey Keo (2%) and lastly, Boeng Keng Kang (1%) and Porsenchey (1%).

Within Knight Frank's monitored basket, 67% of the current supply in Phnom Penh is categorised as Prime retail whilst the remaining 33% is Secondary. Furthermore, all supply is allocated separately between City Centre (39%) and Suburban (61%) area.

Key findings

H1 2023 recorded a total existing retail supply of 826,725 sq m of NLA.

Three newly completed retail developments added to the supply stock; The Peak Mall, The Ground Market and The K Ground Market.

The Ground Market is a new and innovative retail space, with open-air retail centred around a green central park hosting activities and events.

The cumulative supply of retail space is projected to reach 1,121,564 sq m by 2025; the figure represents a growth of 35.66% over the existing supply.

Mean Chey Avenue Community Mall by Rose Marvel announced 70% construction progress with an expected completion by late 2023.

The average occupancy rate for retail sector was recorded at 69% whilst the retail space per capita stood at 0.36 per square metre of NLA.

The total existing supply is further defined into different retail formats. Specifically, 70% of the total retail space is classified as purpose-built projects, followed by community-mall (19%), retail-podium (8%), strata malls (2%), and cash & carry wholesale (1%).

In terms of future supply, in the upcoming three years, the cumulative supply is forecasted to reach 1,121,564 sq m of NLA, scattered over 73 developments. The aggregated figure represents an increase of 294,839 sq m of NLA (35.66%) from the existing supply circulating the market today.

Following the three completions, H1 2023 recorded an additional 13,000 sq m of NLA to the future supply as Mean Chey Avenue Community Mall announced its scheduled opening in late 2023. Located along the main road of Hun Sen Boulevard within ING City, it is designed as a lifestyle destination of mix-used components that offer retail, leisure, and entertainment. As of now, the progress of the construction is reported at approximately around 70%.

According to Ministry of Information in early 2023, the American multinational retail corporation, Walmart, requested information on trade and investment potential. It expressed the intention to promote economic growth and expand more businesses in Cambodian manufacturers in the garment, textile and agricultural sectors.

Similarly, Overseas Cambodian Investment Corporation (OCIC) and Thai hypermarket chain BIG C entered into a Strategic Partnership Agreement in Q2 2023. The MOU aims to develop the first hypermarket of its chain in Phnom Penh, on 2.7 hectares at Sovann Machha area in Chroy Changvar.

In view of the significant increase in supply, compounded by the growing impact of e-commerce on physical retail, the average retail occupancy rate for Phnom Penh was recorded at 69%, despite the continued entrance of international and local brands to the market.

As of H1 2023, with the estimation of Phnom Penh population at 2,300,000 people, the retail space per capita stood at 0.36 per square metre of NLA.

Prices and Rental

Over the reporting period, the average rental rate of retail space in both City Center and Suburban districts displayed a slight decrease in comparison to H2 2022. Currently, retail developers are seeking average rents of \$19 - \$28 USD per sq m of NLA. On the other hand, there is a growing trend of retail landlords agreeing with tenants to provide low base rents and a percentage of gross turnover, typically between 10% to 20%.

Retail Sector Outlook

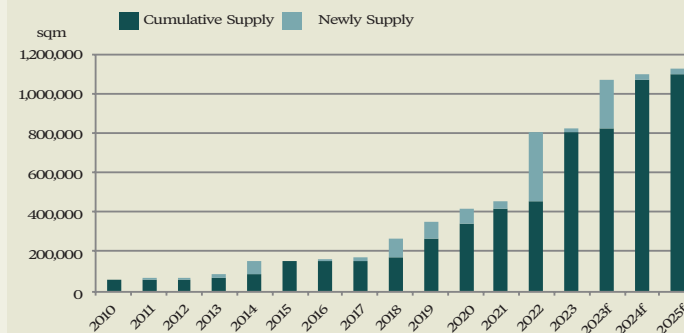
As the election takes place in Q3 2023, the transition of power of constitutional democracy influences all aspects of economic, political and social systems.

As with other real estate sectors, the market is expected to remain subdued until 2024, once the election results have been announced and the new cabinet formed.

This, coupled with increasing supply and a credit squeeze, will continue to place downwards pressure on occupancy and rental rates.

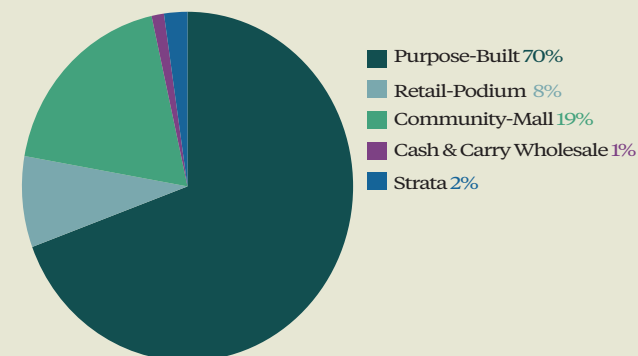
In despite of that, Phnom Penh remains an attractive target for foreign and local developers and investors to keep an eye on. However, the future of retail builds upon a number of trend; technology will continue to shape the retail environment, a need for reduction of package waste and personalized customer experience is key for brick-and-mortar retail.

Figure 7 Cumulative Supply of Retail Space (2010 -2025f)



Source: Knight Frank Research

Figure 8 General Purpose Existing Retail Developments



Source: Knight Frank Research

Phnom Penh Hotel Sector

The successful hosting of the Cambodia SEA GAMES 2023 in May boosted international tourist arrivals to the Kingdom, recorded at 2.57 million during H1 2023, representing an increase of 409 per cent compared with H1 2022

Supply and Demand

During H1 2023, five new hotels were completed and are welcoming guests, representing a notable increase in supply for hotel sector. These five hotels comprised four four-star hotels and one three-star hotel, bringing a total of 671 rooms to the hotel market and demonstrating a varied variety of options for tourists.

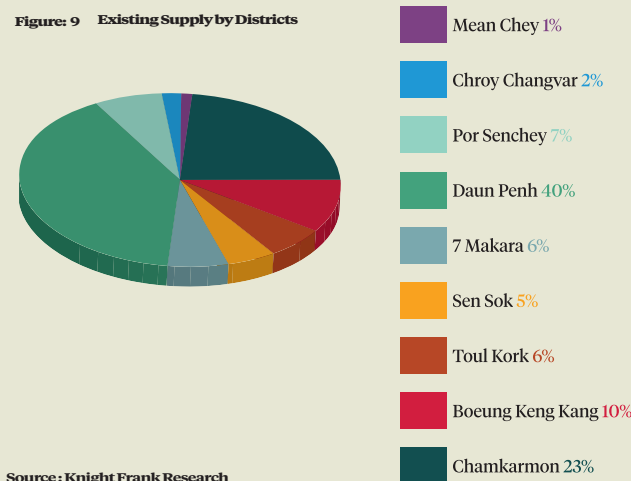
With the completion of these hotels, the existing supply in Phnom Penh increased to 14,624 keys. The new additions are expected to have a favourable influence on the city's tourism sector as more travellers seek superior accommodation alternatives and market segmentation.

The existing supply continued to be dominated by Midscale & Economy hotels, accounting for 45% of total supply. This is followed by Upscale & Upper Midscale (32%), and Luxury & Upper Upscale (23%) hotels. This reflects the changing diversity of tourist arrivals as the market is slowly moving up the value chain, away from a backpacker destination to a more varied market segmentation, with the number of Upscale & Upper Midscale and Luxury & Upper Upscale hotels increasing to meet growing demand.

In terms of location, Daun Penh and Chamkarmon districts made up the majority of the hotel supply, accounting for 40% and 23%, respectively. These districts are popular with tourists due to their central location, historical attractions, and mix of commercial and retail areas.

The remaining supply was split across Boeung Keng Kang District (10%), Chroy Changvar (7%), Toul Kork (6%), 7 Makara (6%), Sen Sok (5%), Por Senchey (2%) and Meanchey District (1%). This data suggests that the majority of the hotels are concentrated in the city centre, with fewer options available in the outskirts which remain largely undeveloped.

Figure 9 Existing Supply by Districts



Source: Knight Frank Research

Key findings

There were 5 new hotel completions during H1 2023, providing an additional 671 rooms.

With the new completions, the existing supply expanded to 14,624 keys, of which 45% were Midscale & Economy, 32% were Upscale & Upper Midscale, and 23% were Luxury & Upper Upscale hotels.

The districts of Daun Penh and Chamkarmon constituted the majority of hotels, accounting for 40% and 23% respectively.

The future supply of hotels is dominated by Luxury & Upper Upscale hotels, which accounted for 67% of total supply.

During H1 2023, with the announcement that IHG Hotels & Resorts' will open a boutique Vignette Collection hotel within the mixed-use development, Odom Living, the future supply of hotel rooms in Phnom Penh continued to increase, albeit moderately. This Luxury & Upper Upscale hotel along Norodom Blvd will comprise 50 rooms. With the launch of the Vignette Collection, the total future supply of hotel rooms in Phnom Penh increased to 7,684 rooms scheduled for completion by 2028.

In contrast to the existing supply, the future supply is dominated by Luxury & Upper Upscale hotels, which will account for 67% of total supply. The other two hotel classes, Upscale & Upper Midscale and Midscale & Economy, accounted for 20% and 14% of total hotels, respectively. This implies that the future hotel industry in Phnom Penh will cater more to high-end consumers, with an emphasis on luxurious amenities and services.

In terms of geographic distribution, Chamkarmon will have the most hotels, accounting for 48% of total supply. This was followed by Daun Penh (17%), Boeung Keng Kang (15%), 7 Makara (8%), Sen Sok (5%), Por Senchey (4%) Chroy Changvar (2%) and Toul Kork (1%). This is in line with the existing supply in that demand for hotels in the Suburban areas remains limited to guesthouse accommodation.

As demonstrated in Figure 10, if all hotels complete as scheduled, the cumulative supply will increase to approximately 22,308 rooms, taking into account both the existing supply and the future supply. This represents a 7.25% increase over the existing supply, reflecting the continued growth and development of the hospitality industry in the city.

Occupancy Rate and Average Room Rate

In Q4 2022, the hotel occupancy rate in Phnom Penh reached 75.1%, an impressive increase over the same period in 2021. International visitor arrivals in Cambodia soared significantly during the first six months of the year, hitting 2.57 million.

This has resulted in a healthy rise in hotel occupancy rates, with several hotels reporting reaching pre-Covid occupancy rates, albeit within the lower end of the market, with the majority of tourists arriving overland from Thailand and Vietnam. This was boosted by the successful hosting of the SEA Games 2023 of the Kingdom.

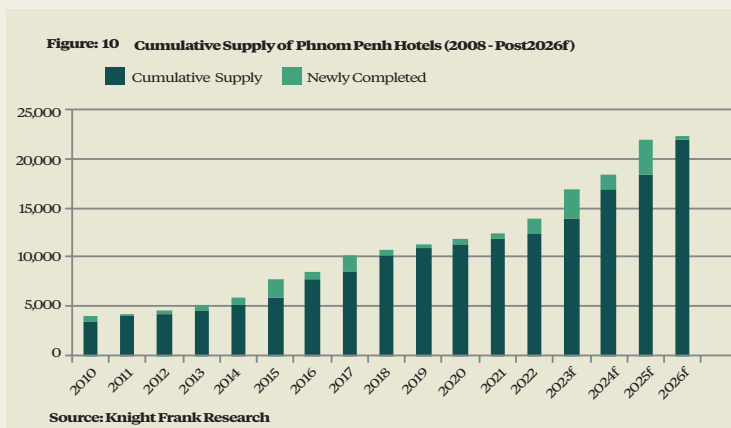
Official figures for the occupancy and room rates during the first half of 2023 were not available during the reporting period but anecdotal evidence suggests that both metrics increased during H1 2023, which helped to boost economic activity across sectors.

Hotel Sector Outlook

Cambodia's hospitality sector continued to benefit from increasing international tourist arrivals during H1 2023, underpinned by the successful hosting of the 2023 SEA Games, which firmly placed Cambodia on the world map with the impressive opening and closing ceremonies wowing audiences around the globe with travel related companies commenting on the potential of Cambodia as a future MICE destination which currently remains untapped.

Whilst the majority of tourist arrivals were low-spending tourists arriving overland from neighbouring countries, it is a positive sign for the recovery of the sector which will be further strengthened with the completion of major infrastructure project including the new Phnom Penh and Siem Reap international airports.

The above, coupled with a more diversified accommodation offering, an increasing interest in Cambodia as a tourist destination, and improving accessibility to ecotourism destinations bodes well for the medium and long-term outlook for the overall hospitality and a country level, which will directly benefit the Phnom Penh hotel sector which serves as a main entry point into the Kingdom.



Phnom Penh Serviced Apartment Sector

Phnom Penh’s serviced apartment sector continued to attract interest from major global operators and there were five new completions during H1 2023, representing a year-on-year increase in supply of 7.1%

Supply and Demand

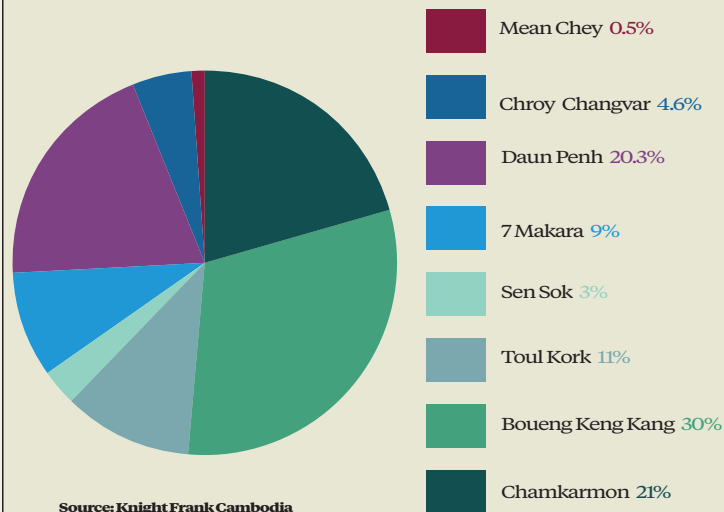
The serviced apartment sector in Phnom Penh continued to expand with five new completions recorded during the first half of 2023. The new completions added 305 units to the existing supply. These new completions were spread over several districts, including Chamkarmon, Daun Penh, and Toul Kork district, demonstrating that the demand for serviced apartments is distributed across the city rather than being concentrated only in the central business district and touristic areas.

These additional developments, which were categorised as Mid-tier and Core units, brought the total Phnom Penh supply to 8,258 units, representing a growth of 7.1% compared with the same period in 2022.

With the new completions being within the Mid-tier and Core segments, developers and operators are catering to a wider range of clientele in decentralised locations. In terms of classification of serviced apartments by grade, the majority of the existing supply is categorised as Mid-tier (57%), followed by High-end (27%) and Core (16%).

In terms of distribution by geographical location, Boueng Keng Kang is the most popular district, with 30% of the total supply. This is followed by Chamkarmon (21%), Daun Penh (20%) and Toul Kork (11%). The remaining stock was distributed across 7 Makara (9%), Chroy Changvar (5%), Sen Sok (3%) and Mean Chey (1%). Additionally, the ratio of serviced apartments in the city centre to those in the suburbs is 92:8.

Figure: 11 Serviced Apartment distribution by Geographical Location



Source: Knight Frank Cambodia

Key findings

Five new serviced apartment buildings were completed during H1 2023, adding 305 units to the existing supply in Phnom Penh.

The existing inventory of serviced apartments in Phnom Penh increased by 7.1% year-on-year to 8,258 units.

Boueng Keng Kang District continued to be the most popular area for expatriates to live, accounting for 30% of the total supply.

Phnom Penh’s future supply of serviced apartments was recorded at 746 units.

The majority of the new supply will be located in Boueng Keng Kang (29%), Chamkarmon (23%) and Sen Sok (21%).

The cumulative supply of serviced apartments in Phnom Penh is expected to reach around 9,004 units by 2026.

During H1 2023, 746 units were identified within the future supply, the majority of which (405 units) are scheduled to complete in 2023.

In terms of future supply by location, the majority of the new supply will be located in Beuong Keng Kang, Chamkarmon, and Sen Sok, which will account for 29%, 23%, and 21% of the total, respectively. Toul Kork District accounts for 14% while Daun Penh District accounts for 13% of the remainder.

The total cumulative supply of serviced apartments in Phnom Penh is expected to reach approximately 9,004 units by 2026. This represents a growth of 9% over the existing supply.

The growth in supply is likely to continue in the future. There are number of new projects in the pipeline, which will further add to the existing supply.

Prices and Rental

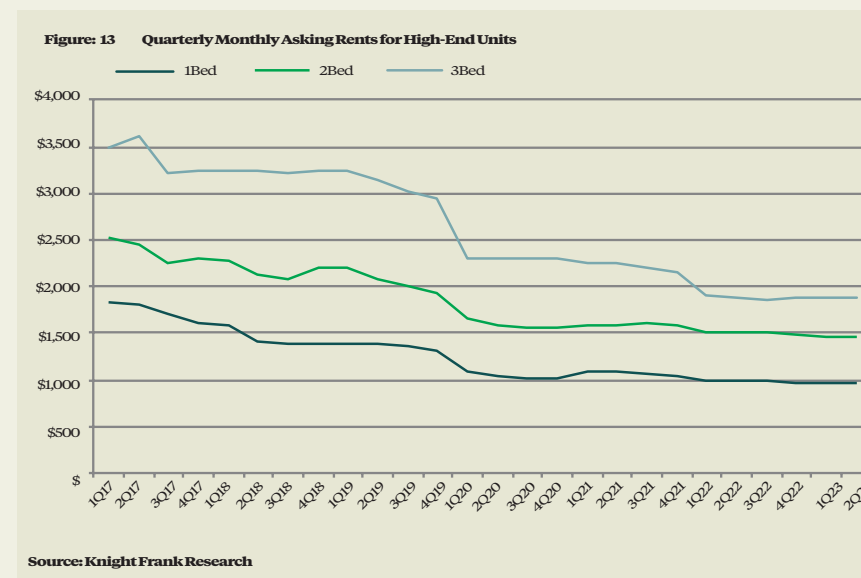
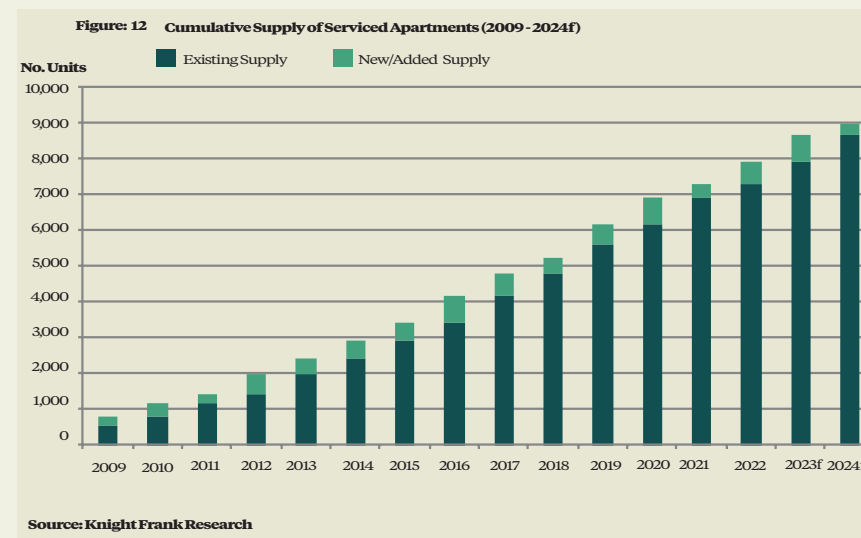
As of H1 2023, the average rental price for a one-bedroom unit was approximately US\$964 per month. Two-bedroom units are rented out for an average of US\$1,466 per month, and three-bedroom units for an average of US\$1,871 per month. The average price per square metre per month is around US\$16, and the average occupancy rate for high-end serviced apartments was recorded at 50%.

Serviced Apartment Sector Outlook

With a significant increase in supply of condominiums and persistent macroeconomic headwinds, the short-term outlook remains cautious, with both rents and occupancy rates continuing to face downward pressure.

Despite the above, the medium and long-term outlook is one of optimism, underpinned by the steady recovery in tourist arrivals and Cambodia's projected economic growth.

In addition, the continued development of new infrastructure projects and the improvement of the regulatory framework for foreign investors could strengthen FDI into the Kingdom and attract major MNCs. This will further boost the demand for serviced apartments in Phnom Penh.



Phnom Penh Condominium Sector

With ongoing global macroeconomic headwinds and interest rate rises by the US Federal Reserve, the Phnom Penh condominium sector remained lacklustre during H1 2023

Supply and Demand

During the reporting period, demand in the Phnom Penh condominium market continued to decline. Despite the completion of several rolled-over projects from 2022, H1 2023 was one of the slowest periods witnessed since the global financial crises, largely attributable to ongoing global macroeconomic headwinds, interest rate rises by the US Federal Reserve and the Cambodian General Election to be held on 23 July.

Despite the slowdown in the market, H1 2023 saw the completion of eight new condominiums, delivering 3,534 units to the total supply stock. The existing supply in Phnom Penh increased to 41,297 units, spreading across 116 condominium buildings. The figure represents a Y-o-Y growth of 109%.

The finished developments included; Agile Sky Residence (963 units), J-Tower II (228 units), Time Square 3 (280 units), Royal Orkide Tower F (235 units), Gold Class Sen Sok Serviced Residence (96 units), Phnom Penh Galaxy Garden (1,140 units), Residence L Borei Keila (450 units), and Grand Condo 7 (142 units).

Among the new completions, Agile Sky Residence is a long-awaited, freehold condominium project by established developer Agile Group Holdings Limited. It is conveniently located on Preah Monivong Boulevard, a prime commercial boulevard that runs south-north of Phnom Penh city. Priced at an average of US\$ 3,300 per sq m of net saleable area (NSA), the building is equipped with high quality home materials, amenities and facilities.

During the reporting period, the existing supply was categorised as followed; Mid-tier 58%, Core 20%, High-end 17% and Prime residences 5%. In comparison to H2 2022, a slight increment of 2% was recorded in the High-end segment.

Location-wise, Chamkarmon remains the most condominium concentrated district in Phnom Penh, securing the largest market share of 22%. Knight Frank recorded twenty-six condominiums located across the five communes of Chamkarmon. Subsequently, the figure is followed by the bustling district of Sen Sok (18%), Mean Chey (18%), Toul Kork (11%), Boueng Keng Kang (9%), 7 Makara (8%), Chroy Changvar (7%), Daun Penh (2%), Porsenchey (2%), Russey Keo (2%) and Chbar Ampov District (1%).

Knight Frank recorded one new launch during H1 2023, J-Tower 3 which will be built on a land area of 1,993 sq m with 77 floors above the ground. The project is undertaken by renowned Japanese developer Tanichu Assetment Co., Ltd., situated in the prestigious district of Chamkarmon.

Key findings

H1 2023 saw the completion of eight new condominium projects, bringing the existing supply stock in Phnom Penh to 41,297 units

The existing supply was categorised as follows; Mid-tier 58%, Core 20%, High-end 17% and Prime 5%

The cumulative supply is expected to increase to 83,023 units by 2028, representing a growth of 201% over the existing stock

Renowned Japanese developer Tanichu Assetment launched J-Tower 3 which will be the tallest building in the Kingdom of Cambodia

Increasing interest rates from all banks from 7.5% to the current rate of 8.25% - 8.50% per annum weighed down on real estate activities amidst economic slowdown

Time Square BKK 306 reported a 95% sales rate, whilst the overall condominium market met with poor sales performance

Announced as an unmatched world class vertical home, J Tower 3 will provide 360 3-bedroom units with sizes ranging between 166 sqm and 178 sq m. Prices start from US\$1,800 per sq m of NLA.

Since entering Cambodia in 2008, Knight Frank Cambodia has monitored a total 78,981 unit launches between 2008 and the second quarter of 2023. Over the years, 2019 recorded the highest number of launched, at 23,221 units accounting for 29% of total launched units. Comparatively, the first half of 2023 accounted for only 3% of units launched since 2008.

By 2028, if all projects complete as scheduled, the total cumulative Phnom Penh supply is forecast to reach 83,023 units across 185 developments, representing a growth of 201% over the existing supply.

In recent years, Mid-tier properties have increased in popularity due to the pricing being more affordable for domestic buyers. The future supply pipeline continued to be made up mainly by Mid-tier properties, accounting for 55% of the future stock. This was followed by High-end (23%), Core (17%) and Prime (5%) units.

The majority of the future supply is located in Chamkarmon District, accounting for 22% of future stock. It is followed by Chroy Changvar (21%), Sen Sok (18%), Russey Keo (8%), Mean Chey (6%), Duan Penh (6%), Toul Kork (6%), Beoung Keng Kang (6%), 7 Makara (4%), Chbar Ampov (2%), and Porsenchey (1%).

Notably, Chroy Changvar is increasing in popularity as it is associated with prime riverfront whilst being located close to Phnom Penh's central business district. The peninsula is surrounded by the Mekong, Bassac and Tonle Sap Rivers and several new bridges have been announced that will further enhance accessibility to the district. Numerous projects have launched in the area including Morgan Enmaison, Wealth Mansion, & La Vista One.

Prices and Rental

By late H1 2023, the average selling price of new off-plan launches in Phnom Penh was recorded at \$1,800 per sq m of NLA. Knight Frank Cambodia recorded an absence of any major price fluctuation within the condominium market over the course of six months leading up to the 2023 Cambodia General Election.

On the other hand, the rental prices continued to decline, with rents now starting from US\$300 per month for a 1-bedroom unit in a modern condominium with good facilities.

Condominium Sector Outlook

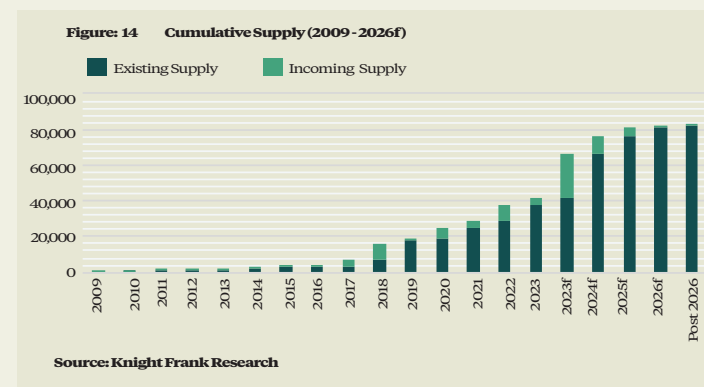
Overall, activity in the condominium market remains weak amidst ongoing global macroeconomic headwinds and the increasing cost of finance in Cambodia.

Cambodian bank loan interest rates increased from 7.5% to between 8.25% - 8.50% per annum and the number of non-performing loans continued to increase.

Despite the above, well-located projects launched at competitive selling prices outperformed the wider market, with both Times Square BKK 306 and J Tower 3 registering healthy off-plan sales rates.

With rental prices also continuing to decline, there is a growing trend of young Cambodians renting condominiums in central locations to be closer to the city and to move out of multigenerational family homes.

These two key factors suggest that domestic demand for condominiums is increasing which will underpin the sector over the medium and long-term.



Phnom Penh Landed Housing Sector

Phnom Penh landed housing slowdown hits market confidence as figures reveal slowing sales rates and a drop in developers' asking prices, down 14% from H2 2022

Supply and Demand

Landed property supply is now significantly outpacing demand across the Mid-tier and High-end segments, and there were 15 new completions during H1 2023. Despite the slowdown in sales rates across Phnom Penh landed housing projects, five off-plan launches were also recorded during the first half of 2023. With the new completions, the existing supply increased to 82,129 units, representing a Y-o-Y growth of 4% from the previous reporting period. Currently, there are approximately 216 landed residential projects across Phnom Penh and captured within our monitored basket.

The new completions during Q1 2023 included Borey La Palm (167 units), Siha Residence (37 units), Borey Kim Soing the Laken Phase 1 (175 units), Borey Chip Mong Grand Phnom Penh City (176 units), Borey LHL (180 units), Borey Vimean Sakura (80 units), and Borey Vimean Phnom Penh 11: The Empire (161 units).

The remaining supply completed in Q2 2023 and included Borey Golden Key (40 units), Borey Laor Tmey Penh Chet (199 units), WB Sport Village (15 units), Borey Peng Houth The Star Platinum Eco Melody (289 units), Borey Peng Houth The Star Platinum Eco Delta (154 units), Borey Phnom Penh Sok San: The Village (500 units), Borey Chankiri Palm Creek (267 units), and Kampu Borey The Riverfront (28 units).

80% of the announced completions were classified within the Mid-tier segmentation, followed by Core (13%) and High-end (7%). Therefore, the overall market is allocated correspondingly, dominated by Mid-tier (55%), Core (35%) and High-end (10%).

Developed by Siha Property, Siha Residence is a high-end gated-community with 37 villas. The project comprises Prestige Villa, President A, B and C, with the building footprint between 232 and 560 sq m of NLA. Priced from US\$1.6 million to US\$3.8 million per unit, it promises to provide homeowners private, and luxurious living. Recently, Siha Residence was awarded Best Borey (Landed Property) – Southern Phnom Penh by Cambodia Real Estate Award 2023.

Established as a district in 2009 with a land size of 59 kilometres, Sen Sok has grown extensively over the last decade in terms of residential properties. Almost unrecognisable, the district is ranked as the leading and most housing concentrated area with 21% of the market share. Following up on the list, Dangkor (18%), Kamboul (13%), Mean Chey (10%), Russey Keo (10%), Chbar Ampov (9%), Chroy Changvar (7%), Por Senchey (5%), and Prek Pnov (3%). The remaining supply is shared between Chamkarmon, Beoung Keng Kang, Duan Penh, Toul Kork and 7 Makara.

Key findings

With 15 newly completed projects during H1 2023, the existing supply increased to 82,129 units, reflecting a Y-o-Y growth of 4%

Sen Sok District has grown extensively in recent years, dominating 21% of the total supply circulating the market

The market segmentation was allocated as follows: Mid-tier (55%), Core (35%) and High-end (10%)

H1 2023 recorded the fewest launches since 2017, with five new projects launched into the market during the first half of the year

By 2026, the cumulative supply is estimated to surge up to 98,392 units, representing a growth of 20% over the current supply

Housing confiscation become a concerning issue as the Council for the Development of Cambodia received approximately 400 complaints from homeowners failing to pay mortgages

H1 2023 saw a decline in developer selling price, falling 14% over from H2 2022 prices

Geographically, the distribution of the overall existing supply is split distinctively between City Centre (3%) and Suburban (97%). The suburban region continues to dominate supply to the to lower land cost and improving infrastructure unlocking development potential in previously undeveloped locations.

H1 2023 recorded a number of new off-plan launches achieving an average overall sales rate of 15% during H1 2023. These included Borey Mean Chey Residence (122 units), Borey Mekong City Phase II, Borey Kim Soing The Laken Phase II (180 units), Borey Phnom Meas (38 units) and lastly, the second project under the renowned developer Urbanland; Borey Chankiri II (106 units).

H1 2023 recorded the fewest launches since 2017 with only 302 units launched compared with 13,729 units launched in 2017. The difference in development scale to the present status reflects the market sentiment and confidence.

Over the next four years, the upcoming supply of landed property in Phnom Penh is projected to grow at a rapid pace. With approximately 47 housing developments monitored in the pipeline, the cumulative supply is estimated to reach up to 98,392 units by 2026. The figure indicates a growth rate of 20% from the existing supply.

On the other hand, the Council for the Development of Cambodia (CDC) received approximately 400 complaints concerning housing confiscations. The issue involves homeowners failing to pay their mortgages, leading to developers seizing the properties. To address the problem, the Prime Minister of Cambodia called upon developers to adopt flexible measures and restructure the installment methods for buyers struggling due to unforeseen results of Covid-19 pandemic and Ukraine War sanctions.

Prices and Rental

As of H1 2023, the average developers' asking price for newly launched projects declined by 14% compared with the previous reporting period.

Following the sweeping success of the first phase, Urbanland announced Borey Chankiri II. Situated 500 metres off National Road 2 along the Stueng Prek Thnoat, the 7.5 hectare land visualises a home that offers a slower pace of life. With timeless design, homebuyers can choose a variety of home types; Villa Udom, Villa Klem, Villa Plous, Villa Kon Khat Laor and Shophouses. The developer selling price ranged between US\$125,800 to US\$471,800 per unit, therefore US\$1,200 per sq m of GFA. It is located 15 minutes from the new Techo International Airport, scheduled for completion in 2025.

During the reviewed period, the rental rate for landed housing averaged at \$220 for flat-houses (100-134 sq m), \$800 for twin-houses (216 sq m), \$1,500 for shop-houses (144 sq m) and \$2,800 for single villas (650 sq m) slightly varied at different locations and furnishing conditions.

Landed Housing Sector Outlook

Since the start of the Russia-Ukraine war in 2022, inflation increased globally. To combat this, the US Federal Reserve increase interest rates to their highest rates since 2001, which had a big impact on the Cambodian market.

The cost of debt had been gradually increasing and non-performing loans increasing in tandem. This has led to slower sales rates and impacted on developer cash flow, with prices declining significantly compared with H1 2023.

We expect this trend to continue as developers have to change strategy to appeal to a wider target market, with more affordable pricing in line for Cambodia's economic indicators which shows that the current pricing of landed housing projects is too expensive for the majority of the population.

The medium to long-term outlook remains optimistic with Cambodia's macroeconomic outlook sound, which will drive demand for housing for the foreseeable.



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