

Phnom Penh, Q3 2016

# Investment into development reaches new heights

**Average High-end Condominium Price**  
\$3,190/SQM

**Prime Apartment Rent**  
\$21.9/SQM

**Prime Office Rent**  
\$22.9/SQM

**Prime Retail Mall Rent**  
\$36.5/SQM

\*Arrows indicate change from previous quarter.

**HIGHLIGHTS**

GDP growth is anticipated to reach 7% for the year, and continue to expand by 6.9% across 2017 and 2018, according to the World Bank.

By the end of Q3 2016, the value of projects granted construction permits was reported as being 76% higher than the corresponding period last year. A total of 2,009 projects have so far been granted permission, with a collective value of US\$7.56 billion.

The number of condominium project launches is showing signs of slowing, with 3 projects having launched over Q3, totaling 1,022 units.

Prime office rents appreciated over Q3. Grade B rents were up 3.8%, whilst supply also increased by 13,400 sqm, equating to an increase in total supply of 4.7%.

**OVERVIEW**

Investment in new development has increased significantly in the first nine months of 2016, up 76% on 2015 at US\$7.56 billion; the vast majority of which is focused in the Phnom Penh market where all sectors are experiencing strong growth in supply.

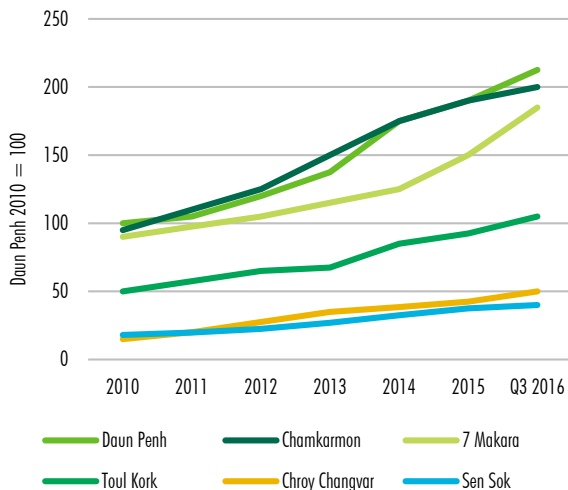
Land prices have continued to appreciate across 2016, although in most districts at a slightly slower pace than in previous years. Higher land prices in central districts, together with fewer available development plots, has acted to drive up investment and land prices in secondary locations. Land prices in the districts of 7 Makara and Toul Kork saw average quarterly growth of 5.8% and 3.4%, respectively, over the first three quarters.

The third quarter witnessed a slowdown in condominium launches, with 3 projects adding a total of 1,022 units to the supply pipeline across both Chamkarmon and Toul Kork districts, down from 8 projects in the preceding quarter and 11 during Q3 2015.

Take-up in the office sector is accelerating with occupancy levels having reached 77.4% in Q3, up 2.3 PP q-o-q, against a backdrop of increasing supply which saw total office stock grow by 4.7%.

Taiwanese investors and developers have been actively participating in the Phnom Penh condominium sector, contributing 53% of the supply of newly launched projects in Q3.

Figure 1: Phnom Penh Land Price Index by District (2010-Q3 2016)



Source: CBRE Research, Q3 2016

**CONDOMINIUM SUPPLY SET TO INCREASE SIGNIFICANTLY THROUGH TO 2018**

As of Q3 2016, supply of condominiums in Phnom Penh was 3,016 units, an 8.3% increase from the previous quarter.

The overall condominium supply figure is set to rise significantly moving forward, with an additional 22,366 units planned, equating to an approximate 842% increase and bringing total supply to 25,382 units by the end of 2018.

The majority of planned condominium projects target either the ‘mid-range’ or ‘high-end’ categories, due to account for 43.9% and 34.3% of overall supply by Q4 2018, respectively.

**STABLE SALES PRICES ACROSS Q3**

Overall average sales prices were relatively stable during Q3, particularly across mid-range and high-end markets.

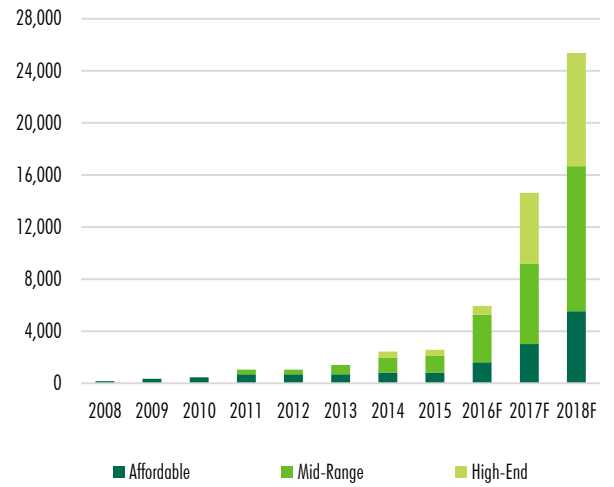
Prices in the affordable segment witnessed a slight decrease of 2.8%, with resale prices of existing affordable stock in the secondary market depreciating by 1.3% in Q3.

**NEW CONDOMINIUM LAUNCHES COOLING DOWN AS SUPPLY DUE TO INCREASE**

In Q3 2016, Phnom Penh witnessed 3 condominium project launches, totaling 1,022 units across the districts of Chamkarmon and Toul Kork. 53% of newly launched condominium units are attributed to Taiwanese developers.

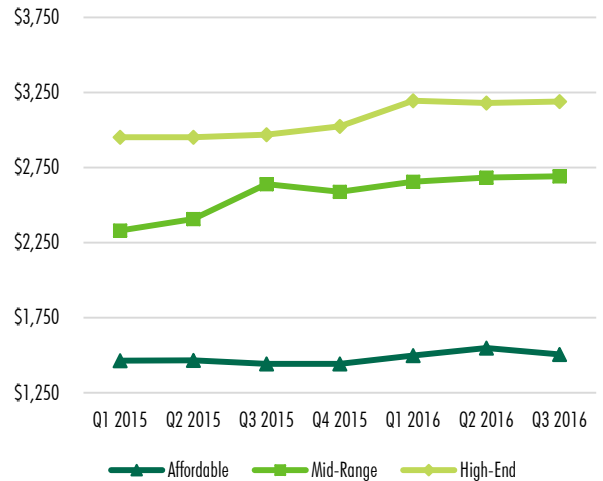
Compared to the last two quarters, the number of new condominium launches in Q3 has decreased. We anticipate the continuation of this trend over the coming quarters as a result of cooling market sentiment.

Figure 2: Phnom Penh Condominium Supply by Grade (2008-2018F)



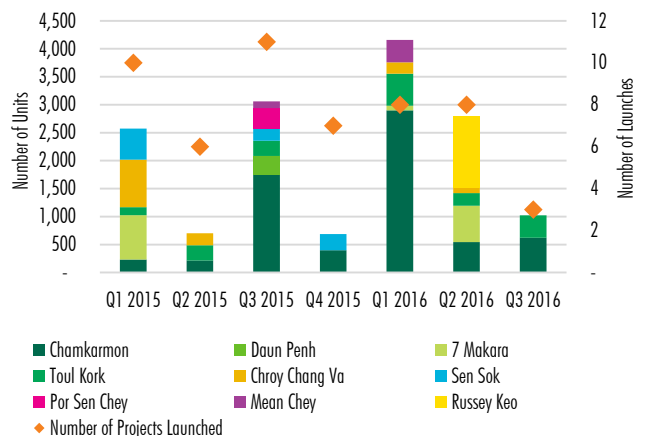
Source: CBRE Research, Q3 2016

Figure 3: Average Price Per Sqm of Phnom Penh Condominiums (Q1 2015-Q3 2016)



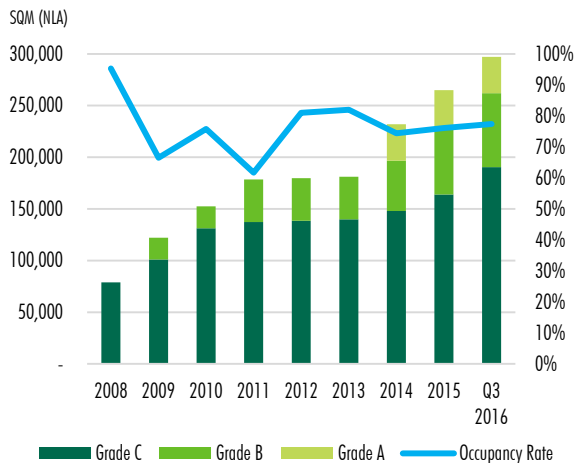
Source: CBRE Research, Q3 2016

Figure 4: Number of Off-plan Condominium Units Announced by District (Q1 2015-Q3 2016)



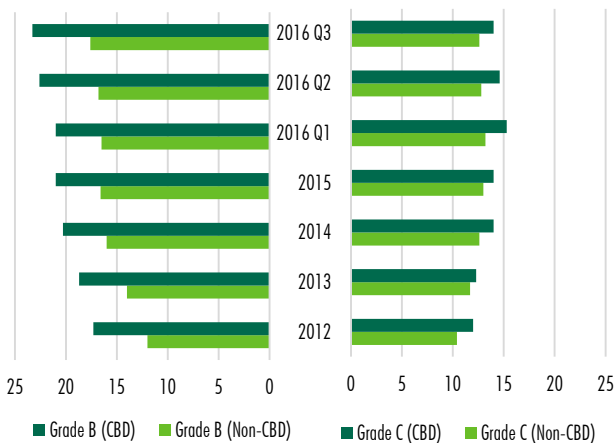
Source: CBRE Research, Q3 2016

**Figure 5: Phnom Penh Office Supply by Grade (2008- Q3 2016)**



Source: CBRE Research, Q3 2016

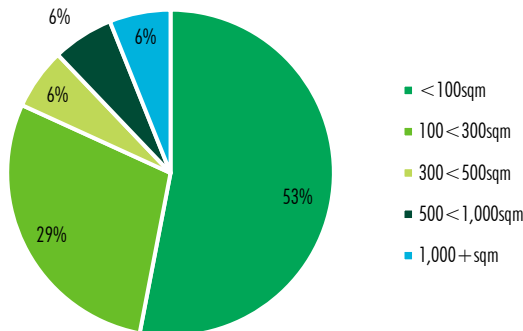
**Figure 6: Average Quoting Office Rental Rates (USD/SQM/Month)**



\*Exclusive of service charge

Source: CBRE Research, Q3 2016

**Figure 7: Office Space Demand by Size Based on CBRE's Enquiries (Q1-Q3 2016)**



Source: CBRE Research, Q3 2016

**SUPPLY INCREASE, OCCUPANCY CONTINUES TO RISES**

The overall occupancy rate for the Phnom Penh office space reached 77.4%, representing a rise of 2.3 percentage points q-o-q.

Total leasable space of approximately 13,400 sqm across Grade B and Grade C was delivered over the course of Q3, accounting for an overall increase in total modern office stock of 4.7%

As of Q3 2016, a majority of Phnom Penh's modern office supply falls into the Grade C segment, which accounts for circa 64% of total stock. Grade A and B account for 12% and 24%, respectively.

**CONTINUED DIVERGENCE OF QUOTED RENTS BETWEEN GRADE B AND C**

In Q3 2016, average quoting rents across Grade B buildings grew by 3.8% q-o-q, whilst average quoting rents across Grade C stock continued to drop, falling 2.9% q-o-q after a decrease of 3.9% over the previous period.

Quoting rents for Grade A space remained stable at approximately US\$28 per sqm, exclusive of service charge.

**OFFICE DEMAND DRIVEN BY FINANCE AND LOGISTICS COMPANIES**

Demand for the Phnom Penh office space is principally driven by finance companies in addition to firms from the logistics and marketing sectors.

During the first nine months of 2016 a little over half of all office enquiries were seeking fewer than 100 square meters. A total of 18% of enquiries were seeking at least 300 square meters, with larger enquiries principally originating from finance and logistics companies.

**FLAGSHIP RETAIL SCHEMES SET TO COMPLETE IN 2017**

Retail supply in Phnom Penh is set to rise significantly by the end of 2018, driven by a combination of new international shopping complexes and significant retail components within residential led mixed-used schemes.

*Parkson Phnom Penh City Center*, comprising 57,000 sqm of leasable space, is now rescheduled to launch during 2017, with Hongkong Land's *Exchange Square* also on-track to deliver 8,000 sqm of leasable space within a dedicated retail podium within the first quarter of 2017.

**PRIME RENTS WERE STABLE OVER THE QUARTER**

Prime retail rents were stable over the course of the third quarter, although average prime high-street rents did appreciate by 2.6% q-o-q.

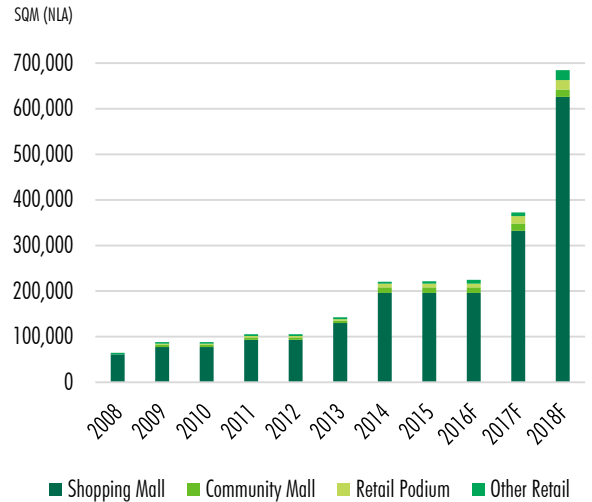
Over the course of Q3, the highest average prime rents by type were attributed to retail arcades at US\$52.5 per sqm and retail podiums at US\$48.3 per sqm.

**INTERNATIONAL F&B BRANDS EYE PRIME RETAIL LOCATIONS**

In the first nine months of 2016, demand for both prime shopping malls and high-streets has principally been driven by purveyors of Food and Beverages in addition to Fashion and Accessories retailers. As of Q3 2016, F&B uses occupy approximately 40% of accumulated retail space at prime shopping malls and prime high-streets, whilst fashion and accessories uses account for almost 30%.

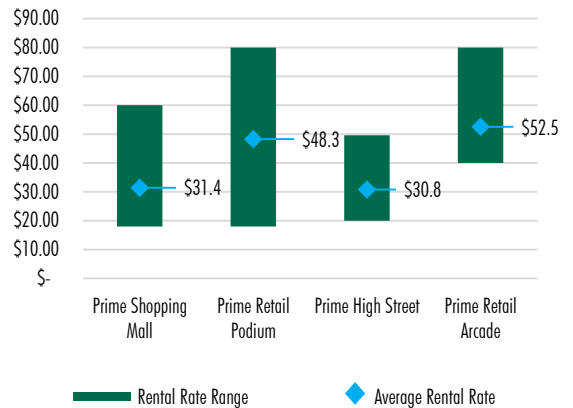
CBRE is aware of a number of F&B brands seeking to enter the market or expand their business in Phnom Penh over the next 12-18 months.

Figure 8: Retail Supply by Type (2007-2018F)



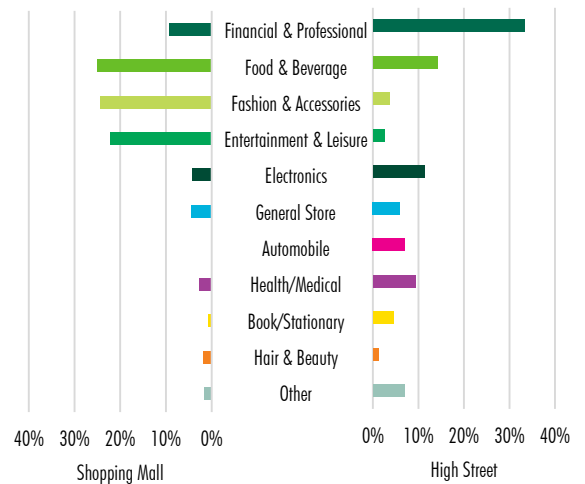
Source: CBRE Research, Q3 2016

Figure 9: Quoting Retail Rental Rates by Type (Q3 2016)



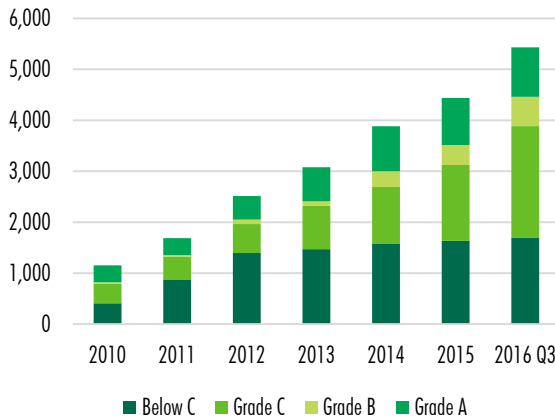
Source: CBRE Research, Q3 2016

Figure 10: Prime Retail Uses (Q3 2016)



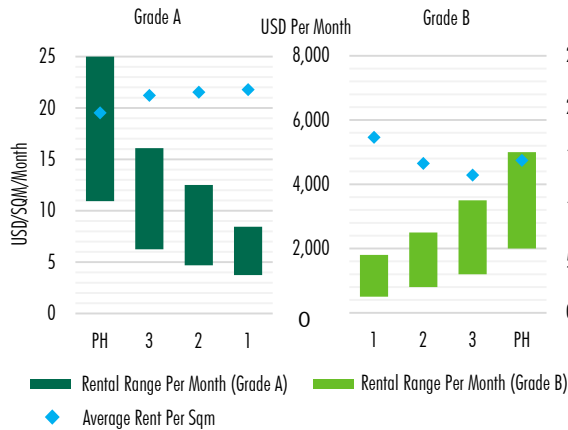
Source: CBRE Research, Q3 2016

**Figure 11: Serviced Apartment Supply by Grade (2010-Q3 2016)**



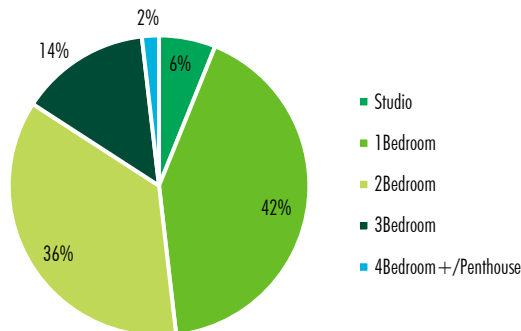
Source: CBRE Research, Q3 2016

**Figure 12: Rental Rate Range by Unit Type and Grade (USD/Month Q3 2016)**



Source: CBRE Research, Q3 2016

**Figure 13: Demand for Serviced Apartments by Unit Type Based on CBRE's Enquiries (Q1-Q3 2016)**



Source: CBRE Research, Q3 2016

**NEW GRADE A SERVICED APARTMENTS ADDED TO THE SUPPLY**

A total of 117 serviced apartment units were delivered over the course of Q3, representing an increase of 2.2% in total supply q-o-q. The supply of serviced apartments in Phnom Penh reached 5,431 units by the end of Q3.

Grade C or below stock continues to account for the majority of existing supply, representing a collective share of 71.6% of total units. Grade A and B units account for 17.9% and 10.6% of existing supply, as of Q3, respectively.

**PRIME SERVICED APARTMENT RENTS HOLD STABLE OVER THE QUARTER**

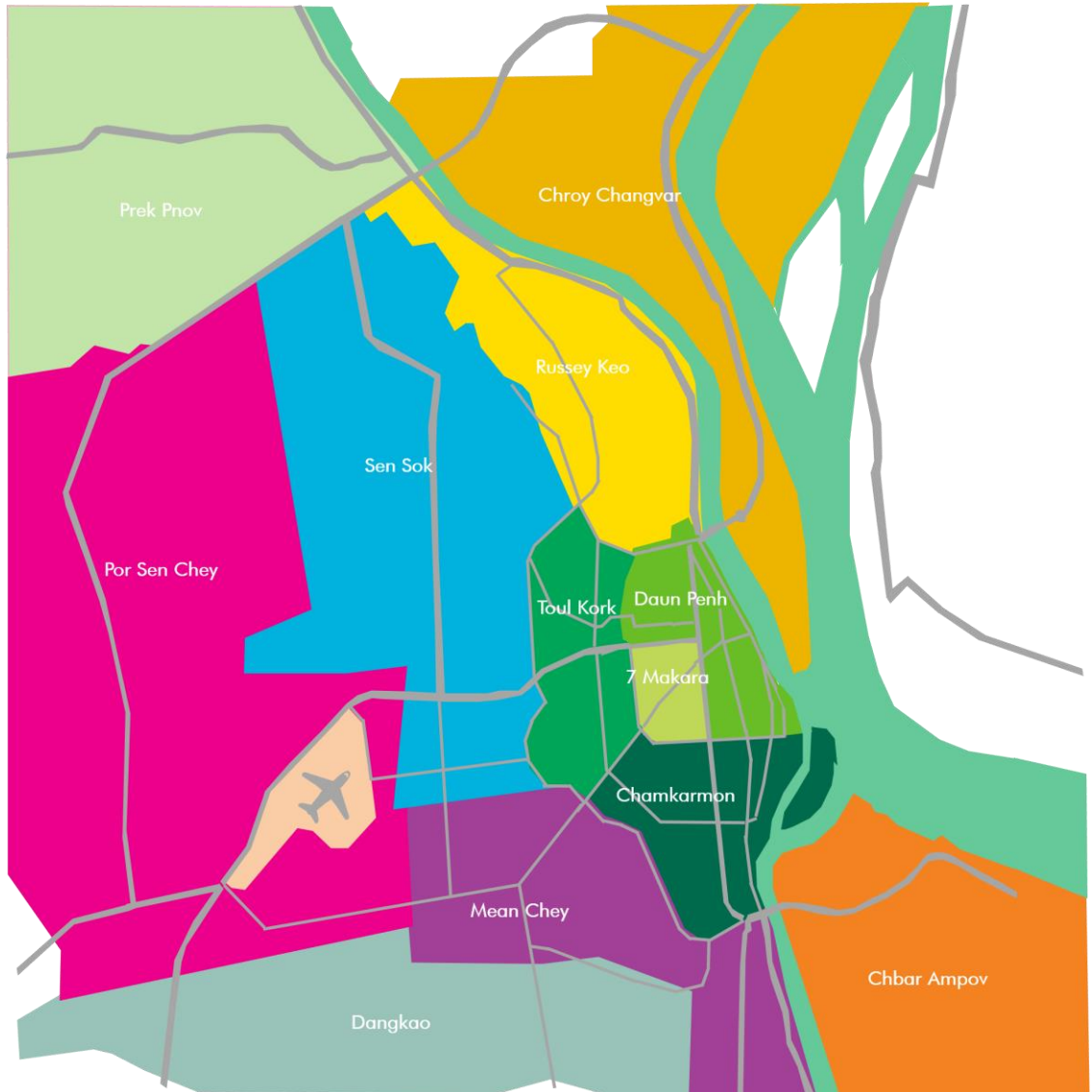
Average Grade A and B rents remained stable over the course of Q3, compared to the previous quarter; no significant growth or reduction in rents is identified as a response to new supply.

Rental rates across prime Phnom Penh serviced apartment stock ranges from US\$500 Per Calendar Month (PCM), for a one-bedroom Grade B apartment, through to US\$8,000 PCM for a flagship penthouse unit, as of Q3 2016.

**HIGHEST DEMAND SEEN FOR 1 BEDROOM SERVICED APARTMENTS**

The primary demand of serviced apartments is dominated by expats living or working in Phnom Penh.

During the first nine months of 2016, the most significant demand for serviced apartments was for 1 Bedroom units, which accounted for 42% of total market demand, followed by 2 Bedrooms and 3 Bedrooms at 36% and 14%, respectively.



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