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MARKETVIEW

Phnom Penh, Q4 2016

A landmark year for construction investment and real estate FDI

Average High-end Condominium Price **$3,131/SQM**

Prime Apartment Rent **$21.9/SQM**

Prime Office Rent **$22.4/SQM**

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

*Arrows indicate change from previous quarter.

HIGHLIGHTS

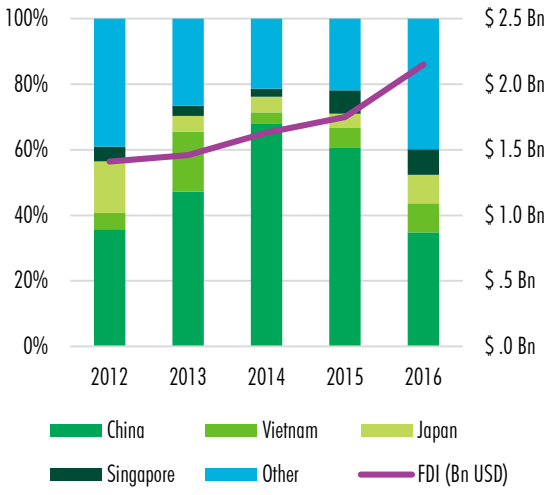
Cambodia's FDI totaled US$2.15 billion in 2016, representing a 25% increase from 2015. The top three recipient sectors for FDI are banking, manufacturing and real estate.

Nationwide, investment into approved construction projects reached $8.5 billion across 2,636 projects by the end of 2016, an increase of 143% on 2015, which saw $3.5 billion invested in 2,305 projects.

Grade-B office's average quoted rents appreciated by 2.2% q-o-q and 11.2% y-o-y. Average quoted rents of Grade-C offices slightly depreciated by 0.4% q-o-q and ended the year down 1.2%.

616 condominium units were launched across two off-plan projects during Q4; representing the lowest level of new launches seen during the last two years.

Figure 1: Sources of FDI Inflow and FDI Value (2012-2016)



Source: National Bank of Cambodia, Q4 2016

OVERVIEW

Data recently released by the National Bank of Cambodia confirms that Foreign Direct Investment (FDI) reached US$2.15 billion during 2016, a 25% uplift when compared to 2015. China remains the country's largest source of FDI, but with a significantly reduced share of the total, down from 61% in 2015, to 35% in 2016.

FDI into real estate totaled US$370 million, representing 17.2% of the total. Investment into approved construction projects increased by approximately 12.4% over the fourth quarter, ending the year at US$8.5 billion, up 143% on 2015.

During October, a visit by Chinese President Xi Jinping resulted in the agreement of almost US$2 billion of infrastructure investment and aid to the country, including a $1.9 billion highway project linking Phnom Penh and the port city of Sihanoukville.

The fourth quarter saw a continued slowdown of condominium project launches, together with downward adjustments in 'high-end' condominium quoting prices. Meanwhile quoted prices in the 'mid-range' and 'affordable' segments continued to hold up well.

Grade-B and Grade-C office rents diverged further, with Grade-B quoting rents recording a Y-o-Y increase of 11.2%, whilst Grade-C depreciated 1.2% over the course of 2016.

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PHNOM PENH TO WITNESS THE FIRST LARGE WAVE OF CONDOMINIUM SUPPLY IN 2017

Phnom Penh's condominium supply is due to increase significantly during the next 12 months. Over the course of 2017, more than 8,000 units are set to complete, accounting for an approximate 200% increase on supply levels as of Q4, 2016.

An additional 13,000 units are scheduled to be delivered during 2018, representing a five-fold increase from the current market position. By 2018, CBRE estimates that 47% and 34% of total condominium supply will be attributable to the 'mid-range' and 'high-end' segments, respectively.

AVERAGE SALES PRICES DEPRECIATED ACROSS 'HIGH-END' SEGMENT IN Q4

Average quoted prices in the 'affordable' and 'mid-range' segments increased marginally over the fourth quarter. 'Mid-range' condominiums rose by 1% q-o-q, whilst prices in the 'high-end' segment dropped by 1.8% q-o-q.

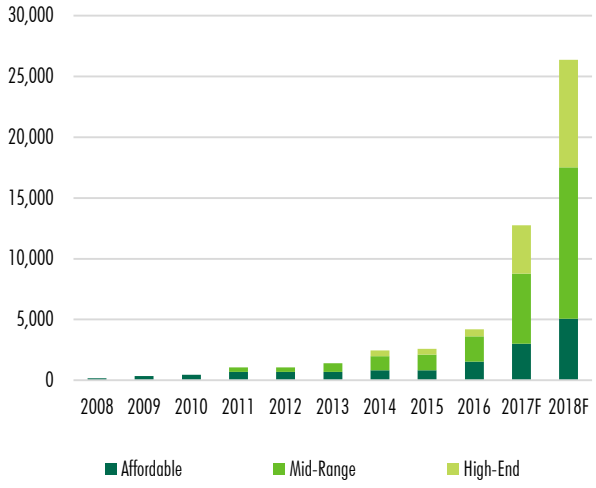
Overall, during 2016 the average quoted sales price saw an increase across all grades compared to the previous year. 'Affordable', 'mid-range' and 'high-end' segments rose by 4.7%, 2.9% and 3.5% y-o-y, respectively.

FUTURE CONDOMINIUM PROJECT LAUNCHES TO TARGET MIDDLE INCOME HOUSEHOLDS

Two off-plan projects, totaling 616 units, were launched in Q4, which was significantly lower than the number of new launches in previous quarters, and a continuation of the pattern seen in Q3, 2016. We anticipate the persistence of this trend over the coming year.

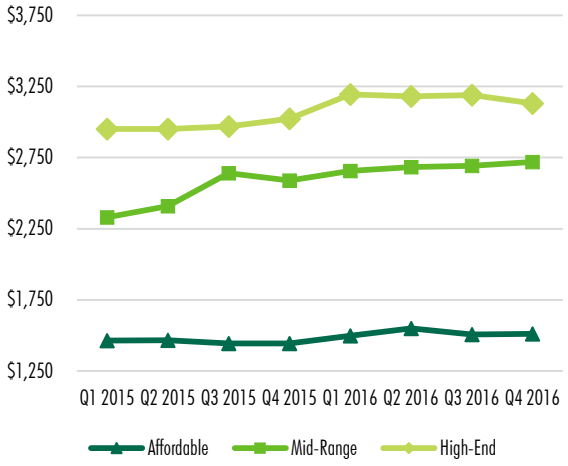
Furthermore, it is worth noting that both projects launched during Q4 are located outside the capital's prime residential areas and that both target local purchasers. In 2017, we expect to see new condominium project launches focused in secondary locations and on the 'affordable' segment to target 'middle income households.

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



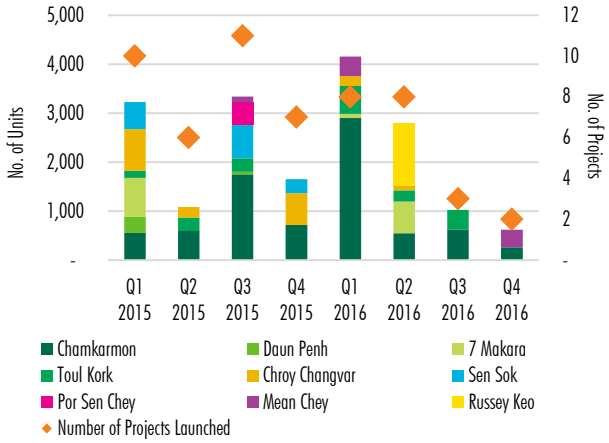
Source: CBRE Research, Q4 2016

Figure 3: Average Price Per Sqm of Phnom Penh Condominiums (Q1 2015-Q4 2016)



Source: CBRE Research, Q4 2016

Figure 4: Number of Off-plan Condominium Units Announced by District, and Number of Project Launches (Q1 2015-Q4 2016)



Source: CBRE Research, Q4 2016

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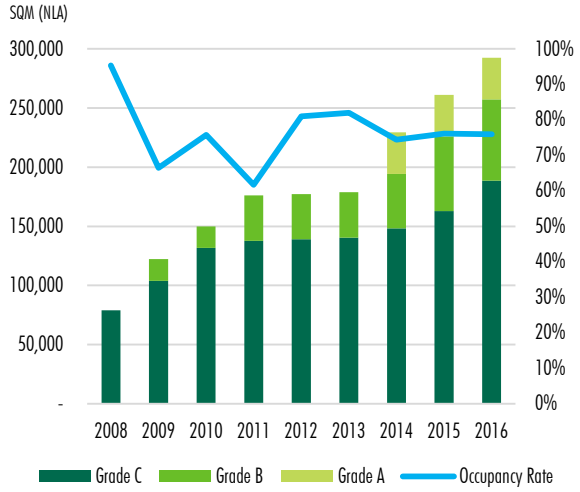
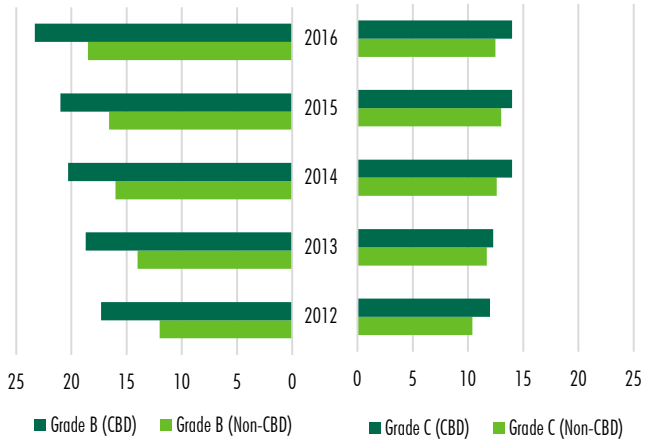
Figure 5: Phnom Penh Office Supply by Grade (2008- 2016)



Source: CBRE Research, Q4 2016

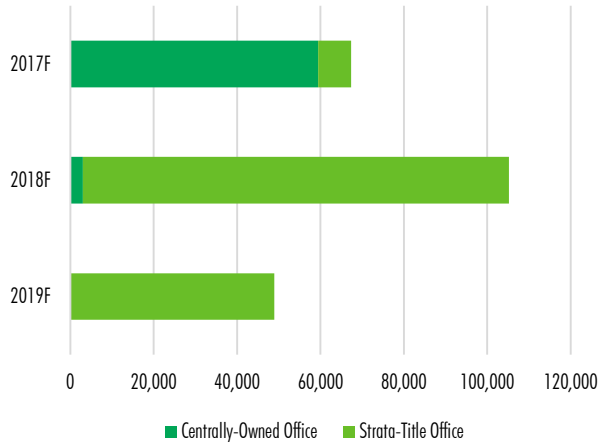
Figure 6: Average Quoted Office Rental Rates (USD/SQM/Month)



**Exclusive of service charge*

Source: CBRE Research, Q4 2016

Figure 7: Future Office Supply Under Construction / Announced (Q4 2016)



Source: CBRE Research, Q4 2016

QUALITY SUPPLY SET TO INCREASE DURING 2017

Over the course of Q4, only one Grade-C office building completed, delivering approximately 4,000 sqm. Meanwhile "Hong Kong Center", one of the capital's earliest purpose-built office buildings, was closed. Overall, occupancy fell by 1.5 pp compared to the previous quarter.

During the next 12 months, a total of around 65,000 square meters of office space is due to launch, with Hongkong Land's 'Exchange Square' on track to add 18,000 square meters as the city's second Grade-A office, by Q1 2017.

MARGINAL DECREASE IN GRADE-C RENTS IN THE CONTEXT OF NEWLY COMPLETED STOCK

During Q4 2016, average quoted rents of Grade-B stock increased by 2.2% q-o-q and ended the year up 11.2%. By contrast, quoted rents in the Grade-C segment saw a slight decrease of 0.4% q-o-q and 1.2% y-o-y; a result of relatively low rents quoted by newly completed Grade-C stock.

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

FUTURE OFFICE SUPPLY DRIVEN BY STRATA-TITLE PROJECTS

During the last 24 months, Phnom Penh has witnessed increasing interest in strata-title commercial developments. We expect to see continued interest in developing strata-title offices from both local and foreign developers.

Strata-title office projects announced or under construction constitute circa 70% of total future office supply due to be delivered during the coming 36 months, and will represent approximately 24% of Phnom Penh's total office supply by the end of 2019.

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FLAGSHIP RETAIL SCHEMES SET TO COMPLETE IN 2017

Phnom Penh has seen no significant volume of new retail supply during the last 24 months. However, 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 complete during 2017. Hongkong Land's 'Exchange Square' is on-track to deliver 8,000 sqm of leasable space within a dedicated retail podium by the end of the first quarter of 2017.

PRIME RENTS WERE STABLE OVER THE QUARTER

Prime retail rents across all formats were stable over the course of Q4, although rents in prime high street locations dropped by 1% q-o-q.

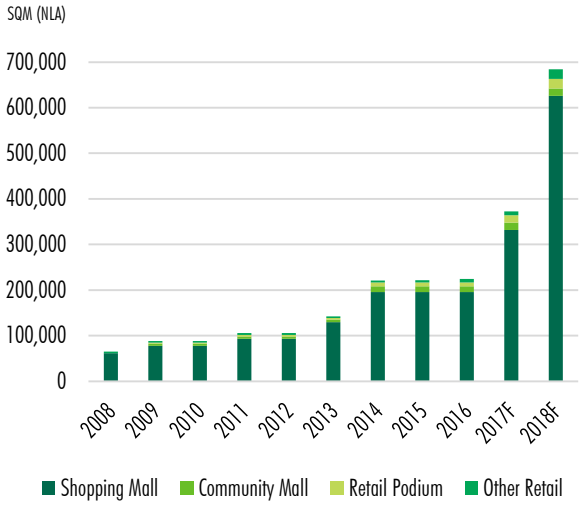
In Q4, the highest average prime rents by type were attributed to retail arcades at US$52.50 per sqm and retail podiums at US$48.30 per sqm.

SUPPLY OF MODERN RETAIL SET TO DECENTRALISE

As of Q4 2016, 68% of modern retail supply is focused on 2 central districts, namely Chamkarmon and Daun Penh.

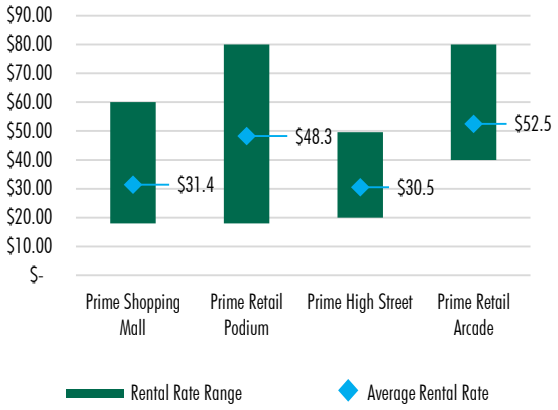
Future developments are more widely dispersed, and although Chamkarmon, the traditional retailing heart of Phnom Penh, is forecast to retain its crown with 28% of supply, other districts will claim a greater share. This trend is supported by rising land prices in central areas and greater availability of large development plots in less developed locations.

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



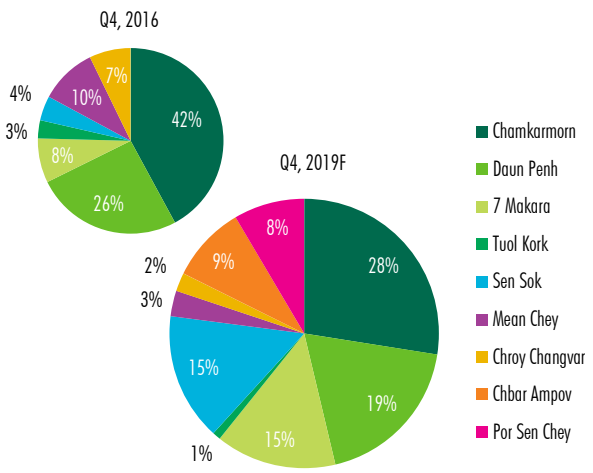
Source: CBRE Research, Q4 2016

Figure 9: Quoted Retail Rental Rates by Type (USD/SQM/Month)



Source: CBRE Research, Q4 2016

Figure 10: Location of Modern Retail Supply by District (Q4 2016 – 2019F)



Source: CBRE Research, Q4 2016

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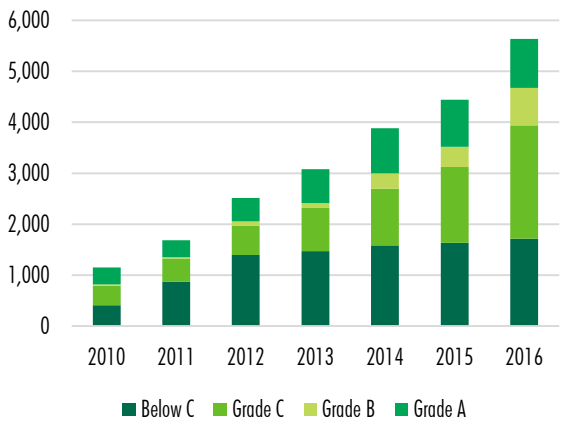
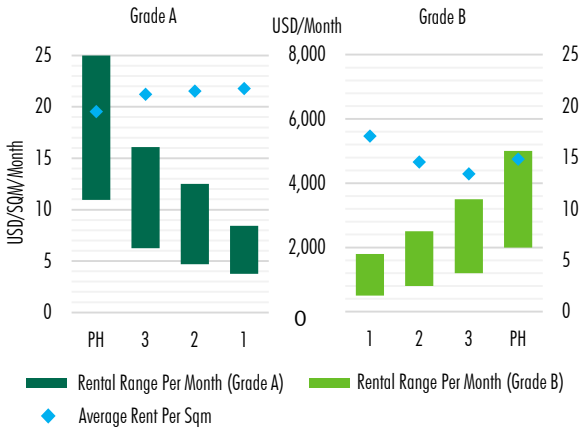
Figure 11: Serviced Apartment Supply by Grade (2010-2016)



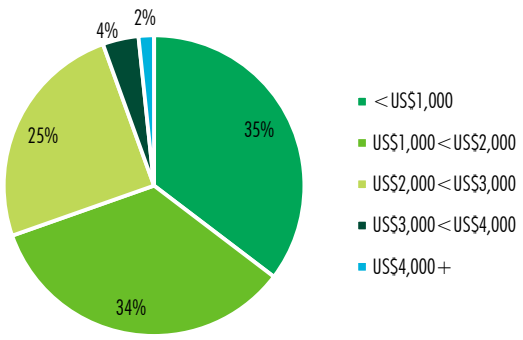
Source: CBRE Research, Q4 2016

Figure 12: Rental Rate Range by Unit Type and Grade (Q4 2016)



Source: CBRE Research, Q4 2016

Figure 13: Demand for Serviced Apartments by Budget Based on CBRE's Enquiries (2016)



Source: CBRE Research, Q4 2016

NEW SUPPLY FOCUSES ON MID-RANGE GRADES

The supply of serviced apartments reached 5,633 units by the end of 2016, an increase of 3.7% q-o-q and 26.9% y-o-y. Grade-B stock saw the most rapid increase in supply over the year, adding an additional 86% of 2015 supply, whilst Grade-C added 50% and became the most populous market segment.

As of Q4 2016, Grade-C or below stock accounted for a collective share of 70% of total serviced apartment supply. In addition, Grade-A and B contributed 17% and 13% of supply, respectively.

PRIME SERVICED APARTMENT RENTS HOLD STEADY OVER THE QUARTER

Average Grade-A and B quoting rents remained stable over the course of Q4.

Rental rates across prime Phnom Penh serviced apartment stock range 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 Q4 2016.

Average quoted rents for Grade-A serviced apartments ended the year at $21.02 per sqm, whilst the average quoted rent of a Grade-B apartment is 29% lower at $14.96 per sqm.

ENQUIRIES CONTINUE TO DEMONSTRATE DEMAND ACROSS A RANGE OF BUDGETS

Affordable and mid-priced serviced apartments continue to be the most sought after market segments. Only 6% of enquiries received during 2016 were seeking accommodation priced in excess of US$3,000 PCM.

69% of enquiries received by CBRE were from tenants with budgets of less than $2,000 PCM, a trend that supports the recent increases in the supply of Grade-B and C serviced apartments.

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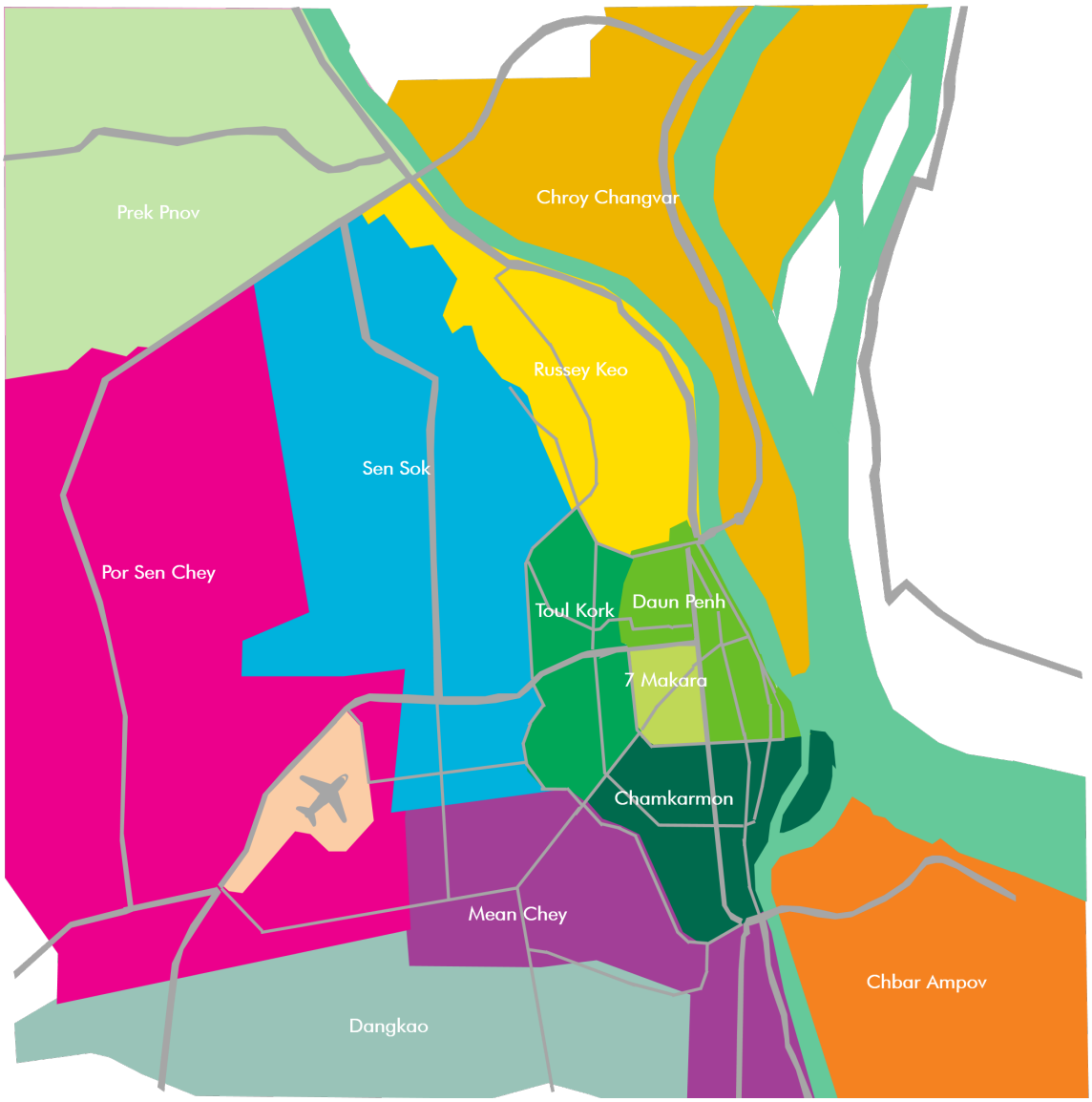

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