

Phnom Penh, Q3 2018

Investment On The Up Following General Election

▲ Average High-end Condominium Price
\$3,226/SQM

▲ Prime Condominium Rent
\$14.3/SQM

▼ Prime Office Rent
\$25.3/SQM

▼ Prime Retail Mall Rent
\$37.2/SQM

*Arrows indicate change from the previous quarter.

HIGHLIGHTS

Two condominium projects consisting of a total of 218 units were completed in Q3. 6 new project launches comprising of circa 2,374 units were added to Phnom Penh's supply pipeline.

The downward trend of condominium rental rates in the mid-range segment subsided, rebounding during Q3 following the sharp falls seen in Q2.

Total office supply grew by 4.6% q-o-q to a total of approximately 352,599 square meters NLA. Office rents remained relatively unchanged in non-CBD locations, with a slight drop in rents in CBD locations.

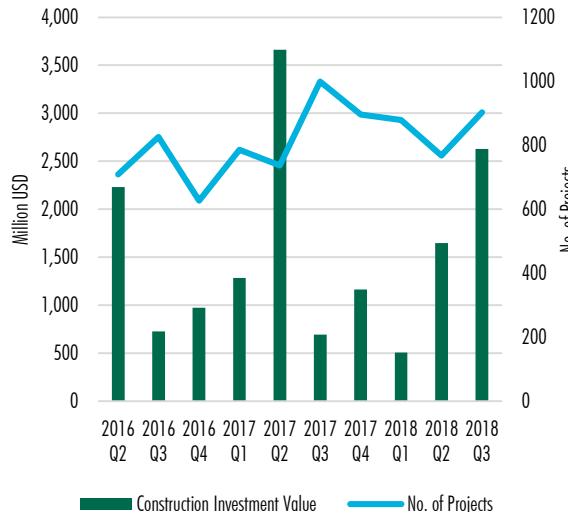
Newly completed retail stock grew by 1.8% q-o-q.

OVERVIEW

According to statistics released by the Ministry of Land Management, Urban Planning & Construction, there was a resurgence of confidence in the real estate sector following the results of July's general election.

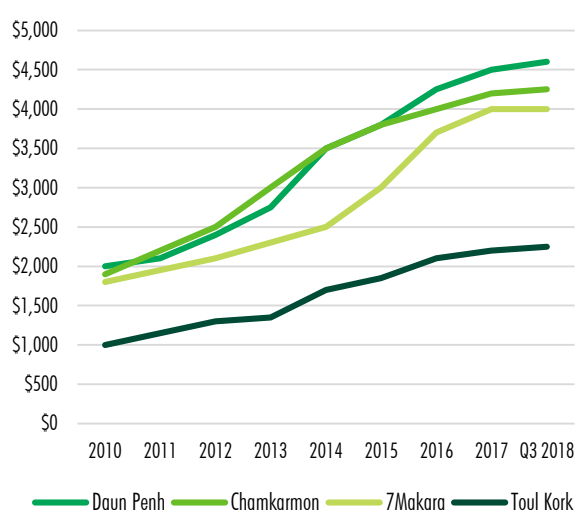
Total approved investment into construction over the first 8 months of the year is estimated to be just shy of US\$4 billion, an increase of US\$2.2 billion on figures released three months prior. July and August saw a combined total investment into construction of circa US\$1.75 billion, proportionate to 44% of the total amount invested up to the end of August. The volume of projects approved over the first 8 months reached approximately 2,250 nationwide, with approximately 900 projects approved during the months of July and August.

Figure 1: Approved Investment into Construction, Value and Number of Projects (Q2 2016 – Q3 2018F)



Source: Ministry of Land Management, Urban Planning and Construction

Figure 2: Indicative Land Prices by District in Phnom Penh (USD/SQM) (2010 – Q3 2018)



Source: CBRE Cambodia, Q3 2018

SUPPLY

Q3 saw relatively limited new additions to the total condominium supply with the completion of just 218 condominium units from two projects, namely *Skylar Meridian* in Chamkarmon District and *Apennines Condominium* in Toul Kork District. Total supply within the condominium market increased by 1.8% q-o-q to a total of circa 12,048 units.

A little over 80% of this new supply was graded in the high-end segment in Chamkarmon District, continuing its legacy as a hub of new high-rise property, with the remainder positioned in the mid-range segment in the up-and-coming Toul Kork District.

More notably, Q3 saw 6 new condominium project launches, most of which are located in secondary districts. The newly launched projects add a further 2,374 units to the supply pipeline, and marked a 5.2% increase in new launches q-o-q, signaling renewed confidence from developers. *TK Star International*, comprising of 910 units, was the largest of the projects launched amounting to 38.3% of total additions to the pipeline supply in Q3.

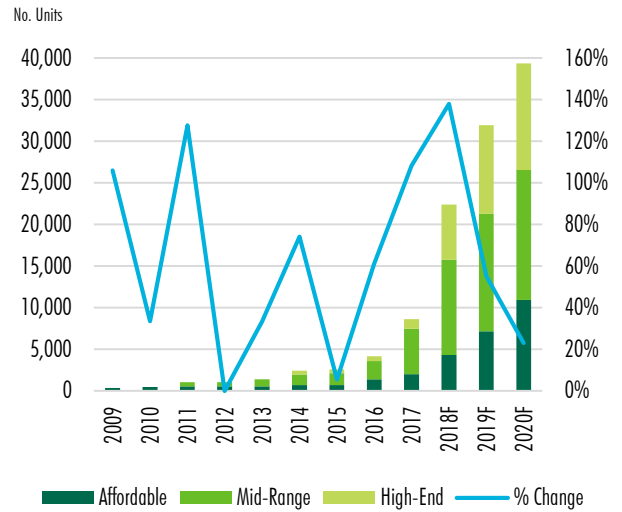
SALES PRICES

Sales prices remained stable over Q3 across all condominium segments, with all sectors witnessing modest positive uplifts of less than 1% when compared to Q2 2018. High-end prices increased by 0.5%, mid-range by 0.4% and affordable by 0.2%. The performance of sales prices vary when compared to the same point last year, with affordable projects having seen a positive adjustment of 5%, whilst the high-end segment saw just 1.8% and the mid-range segment witnessing a fall of 2%, primarily due to the large influx in supply within this segment.

CONDOMINIUM RENTS

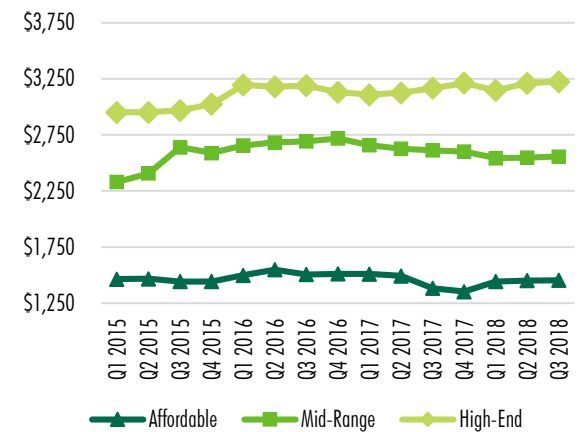
In light of the substantial drop in average mid-range rates in Q2, rental values stabilized over Q3 to approximately US\$14.3/sqm for high-end and US\$11.6/sqm for mid-range supply, a q-o-q uplift of 0.3% and 5% respectively, in part due to the few completions witnessed in Q3.

Figure 3: Phnom Penh Condominium Supply by Grade (2009-2020F)



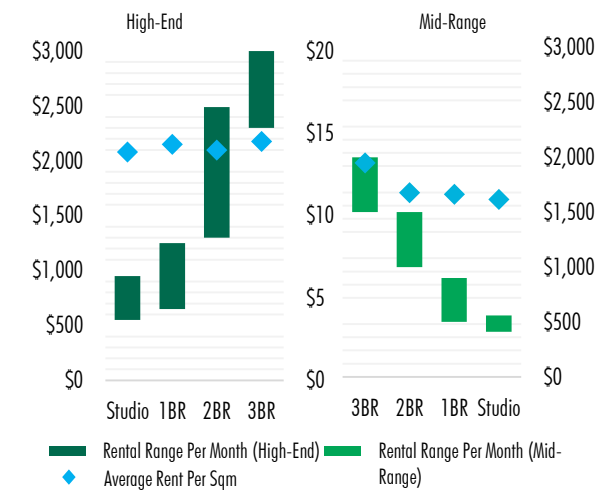
Source: CBRE Research, Q3 2018

Figure 4: Average Price Per Sqm of Phnom Penh Condominiums (Q1 2015 - Q3 2018)



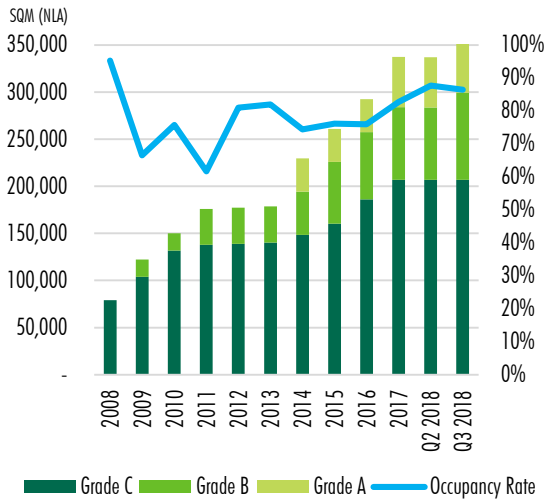
Source: CBRE Research, Q3 2018

Figure 5: Monthly Rents and Average Per Sqm Rents Per Month of Phnom Penh Condominiums (High-End & Mid-Range) (USD)



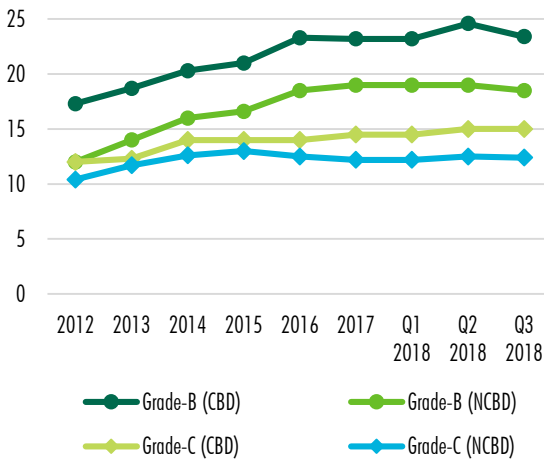
Source: CBRE Research, Q3 2018

Figure 6: Phnom Penh Office Supply by Grade (2008 - Q3 2018)



Source: CBRE Research, Q3 2018

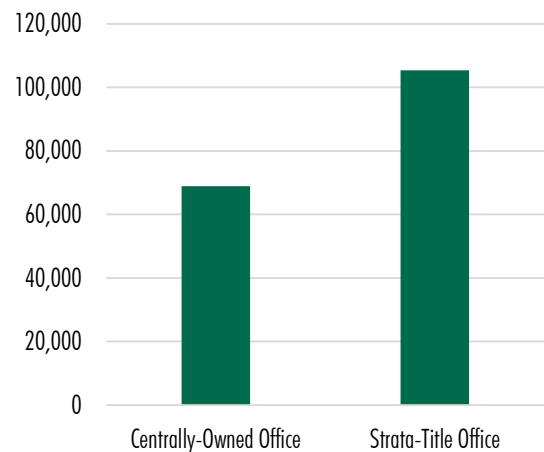
Figure 7: Average Quoted Phnom Penh Office Rental Rates (USD/SQM/Month) (2012 - Q3 2018)



*Exclusive of service charge

Source: CBRE Research, Q3 2018

Figure 8: Future Office Supply by Type (Q4 2018 - Q4 2019)



Source: CBRE Research, Q3 2018

SUPPLY

Total office supply grew by circa 4.6% over the quarter. *Keystone* completed in Chamkarmon District, increasing office stock to a total of approximately 352,599 square metres. The strong performance of *Keystone* has demonstrated the sustained demand for Grade-B supply, with the property achieving circa 50% commitment by the end of the quarter. *Keystone* contributes an extra 20% to the total Grade-B stock.

Average occupancy rates across all grades increased by 4.7% q-o-q, highlighting continued steady demand for office supply in the capital.

RENTS

Office rental rates remained broadly unchanged across all grades in Q3, following a similar trajectory to preceding quarters. Grade-C rents were stable in both CBD and non-CBD locations. However, Grade-B rents fell by approximately 5% within the CBD and 2.7% in non-CBD locations q-o-q.

FUTURE OFFICE SUPPLY

By the end of 2018, a further 56,937 square metres is forecast to be introduced to the market, with new supply due from *E.SUN Tower*, *East Commercial Centre*, *Star City* and *Diamond Twin Tower*.

The outlook for the next 12 months sees a growing trend in the delivery of new strata-title supply entering the market, with the strata-title sector anticipated to total a leasable area of circa 106,000 square meters by the end of 2019. It is forecast that 40% of upcoming office stock in the next year will be centrally-owned, a 4% increase in pipeline share when compared to Q3 2017.

SUPPLY

Total completed retail supply only marginally increased in Q3 following the introduction of *The Bridge* to the market, which has attracted international retailers including Starbucks and Tous Les Jours. *MiDTOWN Mall* and *The Olympia Mall* are both scheduled for completion during Q4 2018 followed by *Noromall* and *Downtown93* in early 2019. Overall, the completed retail stock grew by 4,727 square metres over Q3, a q-o-q growth in total retail supply of 1.8% and retail podium supply of 20.7%. A further 50,000 square metres of new retail supply remains forecast to complete before the end of the year.

RENTS

Rental rates across the retail sector remained relatively steady when benchmarked against the preceding quarters of this year, likely due to the relatively marginal increase in new supply that entered the market over the quarter.

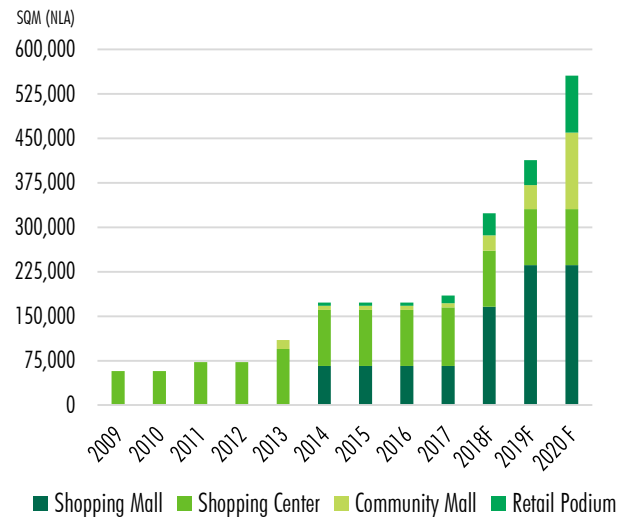
It is forecast that there will be more pressure on Landlords to remain competitive with their rental rates in the near future due to the anticipated increase in new supply set to be completed over the next quarter and early 2019, particularly in the community mall segment.

VACANCY

Vacancy rates within the retail market fell slightly to 8.3% across all retail types, a 1.2% reduction in total vacancy q-o-q. This relatively low vacancy rate is attributed to the limited new retail supply completed during Q3 and the rising attraction of Phnom Penh’s stock to international retailers.

It is estimated that the overall vacancy will increase again in the near future, with an estimated 15.3% growth in completed stock expected to enter the market in Q4 2018 followed by a further 3.1% growth in stock in Q1 2019. The anticipated completed supply over the next two quarters is estimated to grow the stock of community malls, retail podiums and shopping malls by approximately 78%, 12.6% and 11.6% respectively.

Figure 9: Phnom Penh Retail Supply (2009 – 2020F)



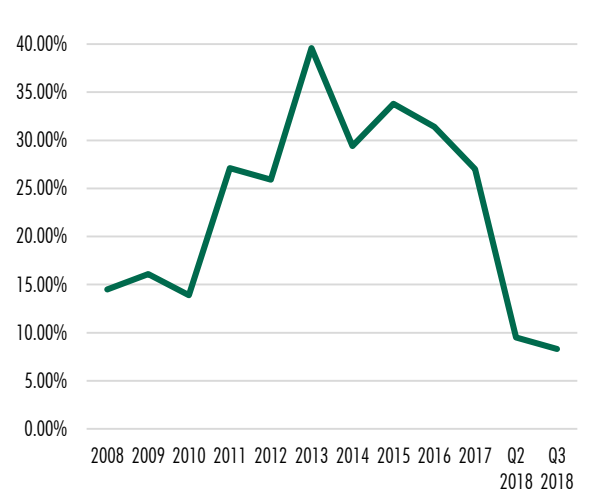
Source: CBRE Research, Q3 2018

Figure 10: Quoted Retail Rental Rates by Type (USD/SQM/Month)



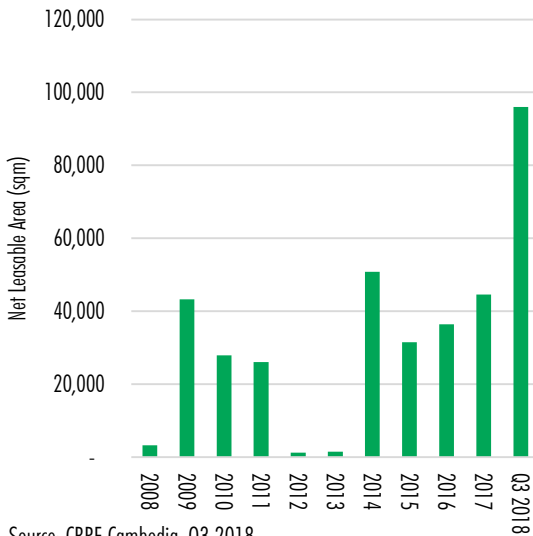
Source: CBRE Research, Q3 2018

Figure 11: Vacancy Rate of Phnom Penh Retail Supply (2008 – Q3 2018)



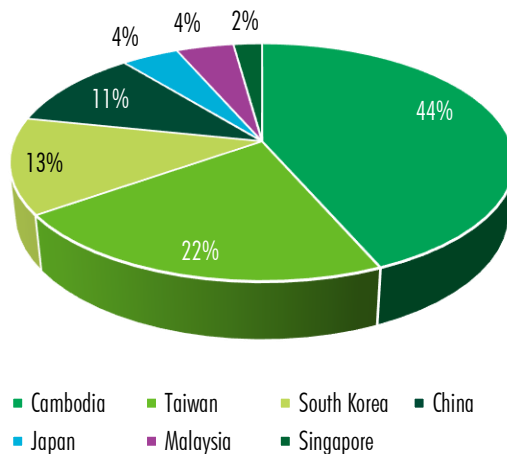
Source: CBRE Research, Q3 2018

Figure 12: Phnom Penh New Office Supply Per Annum (2008-2018)



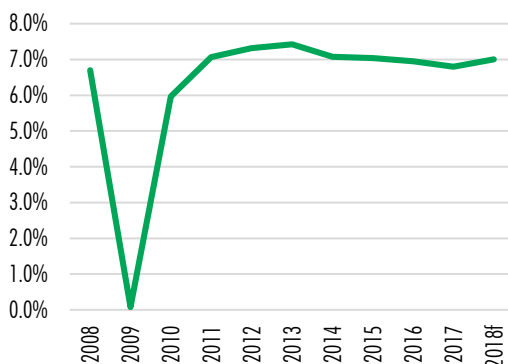
Source: CBRE Cambodia, Q3 2018

Figure 13: Residential Developments by Developer Nationality (2008-2018)



Source: CBRE Cambodia, Q3 2018

Figure 14: Cambodia's Real GDP Growth Rate (2010 – 2018f)



Source: World Bank, Oct 2018

REAL ESTATE SUPPLY

Since 2008, the cityscape of Phnom Penh has changed dramatically, beginning with an insubstantial total office stock of 2,300 square metres of net leasable area, one local shopping centre, and 2 condominium developments comprising of 172 units collectively. As of Q3 2018, all sectors have witnessed significant growth with office supply standing at approximately 352,599 square metres of net leasable area, circa 325,000 square metres of retail stock, and 12,048 condominium units.

Furthermore, this remarkable growth is set to accelerate into the foreseeable future, with an estimated 520,000 square metres of office stock, 39,500 condominium units and 550,000 square metres of total retail supply to be present in the market by the end of 2020.

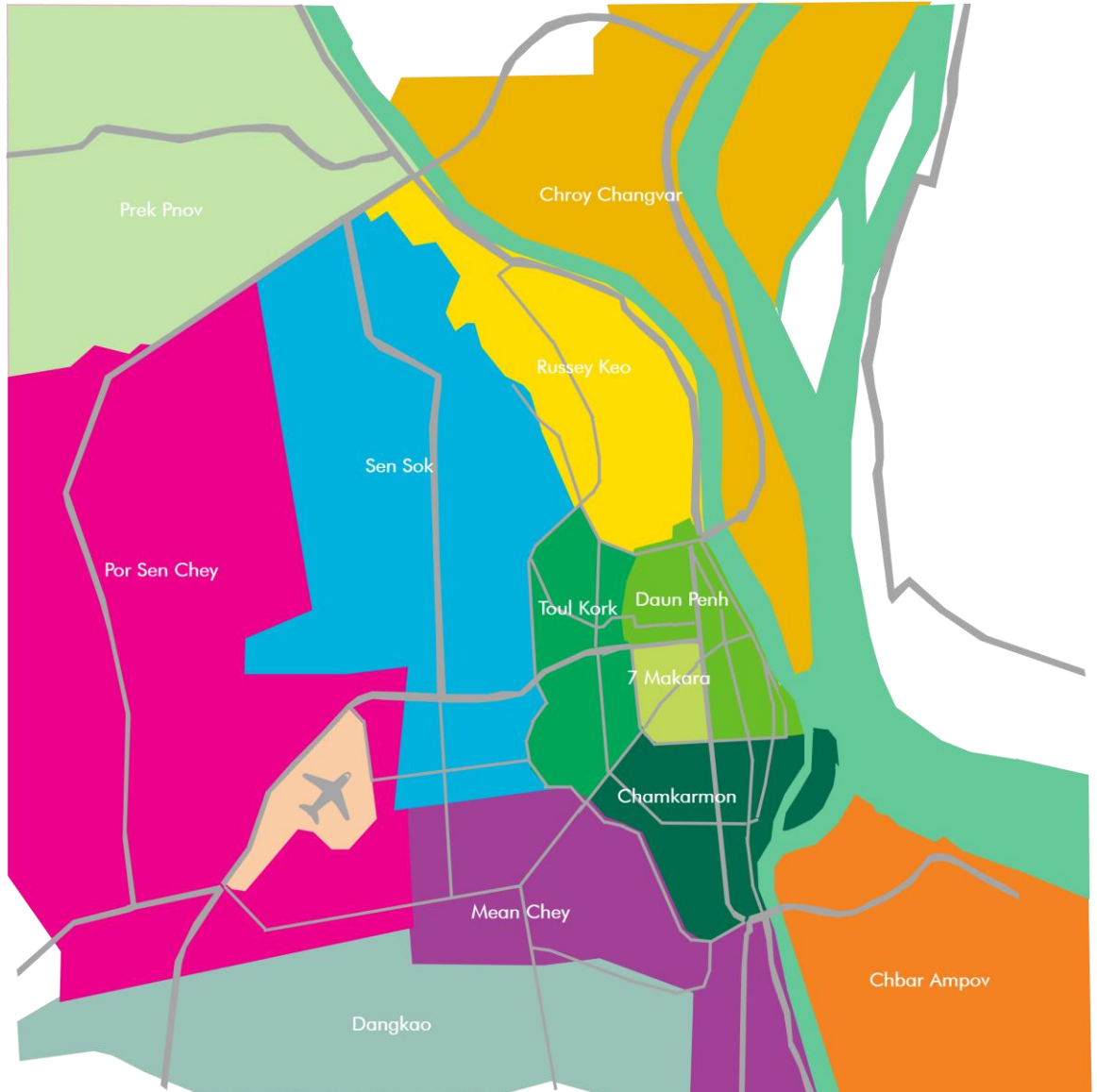
DEVELOPER DIVERSIFICATION

Cambodia has seen a substantial change in the nationalities that have driven real estate development over the past decade. Whilst the amount of condominium development by local developers has grown rapidly from just 3 completed projects in 2013 to 20 in 2018, there has also been a notable progression in international presence in recent years, with residential developers from 4 new nationalities collectively completing a total of 10 residential projects in the past 5 years.

ECONOMIC PERFORMANCE

The World Bank's most recent economic update estimates Cambodia's real GDP growth will reach 7.0% during 2018, a relatively strong result in light of the general election in July this year.

Cambodia's economy has recovered quickly from the effects of the global financial crisis and subsequent economic downturn a decade ago, averaging a real GDP growth of 6.95% per annum since 2010.



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