

Phnom Penh, Q1 2017

# Construction investment cools down but markets remain heated

▼ Average High-end Condominium Price \$3,108/SQM
▶ Prime Condominium Rent \$15.6/SQM
▼ Prime Office Rent \$22.2/SQM
▶ Prime Retail Mall Rent \$39.8/SQM

\*Arrows indicate change from the previous quarter.

**HIGHLIGHTS**

The Asian Development Bank expects Cambodia's GDP to expand by 7.1% in 2017 and 2018, a slight upwards revision from the 7% predicted last year.

Construction investment in Cambodia saw a 22% drop in Q1 2017, compared to the corresponding period last year. A total of 786 projects with a combined value of 1.28 billion USD were approved.

In Q1 2017, overall occupancy and rents of modern office stock in Phnom Penh were stable compared to the previous quarter, whilst supply increased by 6%.

Quoting prices of condominium units saw a marginal decrease across all grades in Q1 compared to the previous quarter.

Two condominium projects, totaling 1,055 units were launched during Q1, both are in secondary districts.

**OVERVIEW**

The Asian Development Bank (ADB) expects to see GDP growth of 7.1% in 2017 and 2018; 0.1% higher than their previous prediction.

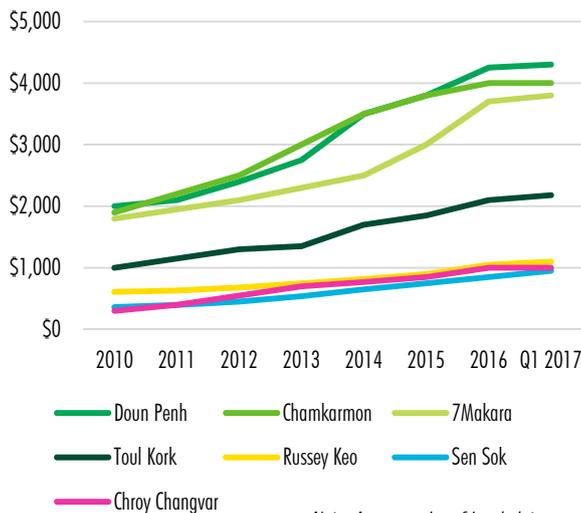
In contrast to a significant increase in the volume of investment into construction seen last year, the first quarter of 2017 saw a 22% decline in approved construction projects year on year to a total value of 1.28 billion USD across 786 projects. The most popular projects to gain approval during the period were mid to high rise commercial and residential buildings, in addition to factories.

In the first quarter of 2017, land values across Phnom Penh's principal districts appreciated by an average of 3.5%. A lack of available land plots in addition to historically high prices in central districts have caused developers to further consider secondary locations. Alongside increasing development activity, infrastructure improvements connecting those locations to central districts and the presence of some prominent commercial developments have driven land price appreciation in secondary districts. Of particular note is the city's Sen Sok district where land prices rose 11.8% q-o-q.

In the wake of new office supply, overall occupancy and rents were stable in Q1 2017 compared with the previous quarter.

Quoting prices for condominium units witnessed a slight decrease in Q1 this year, compared to Q4 2016. The capital is set to welcome a significant wave of new condominium supply over the course of 2017.

Figure 1: Indicative Land Price by District in Phnom Penh (USD/SQM)



Note: Average price of Land plots between 0.2ha and 3ha.

Source: CBRE Research, Q1 2017

**SUPPLY**

Phnom Penh is set to welcome a significant wave of condominium supply in 2017, with circa 7,000 units due to be delivered by the end of this year. CBRE expect to see the completion of more than 1,500 condo units in Q2. We are aware that sales went well in Q1 for projects that combine high-quality finishes and design, with a strong location.

Only two condominium projects were launched off-plan over the course of Q1. The two projects together comprise a total of 1,055 units both are located in Phnom Penh’s secondary districts.

**SALES PRICES**

Average quoting prices marginally decreased during Q1 2017 across all grades compared to the preceding quarter. Meanwhile sales prices in the secondary markets also dropped 1.5% q-o-q. On average quoting prices have shrunk 1.0% since Q1 2016.

Average quoting prices in the affordable segment were broadly stable, prices have fallen 0.8% compared with Q1 2016. Quoting prices for mid-range condominiums reduced by 2.2% q-o-q, while high-end projects saw quoting prices shrink by 0.7% q-o-q and 2.7% compared with the same period last year.

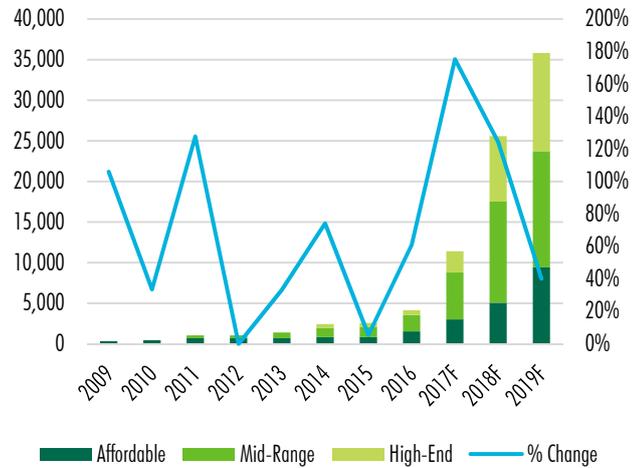
Average quoting prices of newly launched projects in Q1 were in the order of US\$1,350 per sqm based on net internal area.

**PRIME CONDOMINIUM RENTS**

Prime condominium rents were stable in the last quarter compared to the previous quarter, with an average rent per square meter per month recorded at US\$15.6. Lower grade condominiums achieved rents in the region of US\$10 per sqm per month.

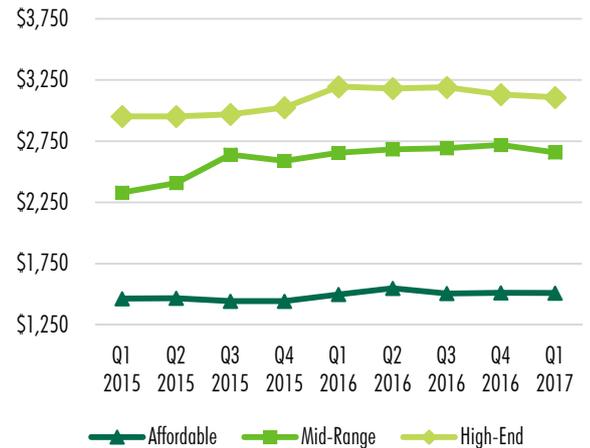
Monthly rents for prime 1 Bedroom units achieved between US\$800 and US\$1,500 per month, whilst prime 2 Bedroom condominiums were rented at between US\$1,500 and US\$2,000 per month.

Figure 2: Phnom Penh Condominium Supply by Grade (2009-2019F)



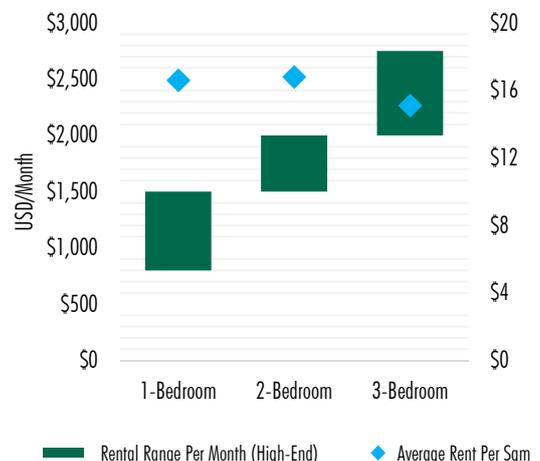
Source: CBRE Research, Q1 2017

Figure 3: Average Price Per Sqm of Phnom Penh Condominiums (Q1 2015-Q1 2017)



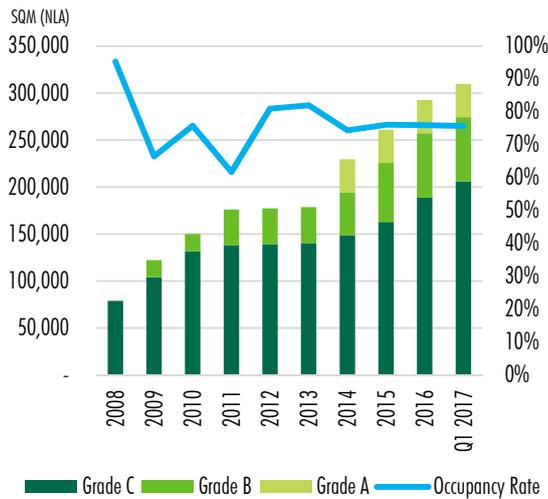
Source: CBRE Research, Q1 2017

Figure 4: Achieved Rents of Prime Condominiums (High-End)



Source: CBRE Research, Q1 2017

**Figure 5: Phnom Penh Office Supply by Grade (2008- 2017 Q1)**



Source: CBRE Research, Q1 2017

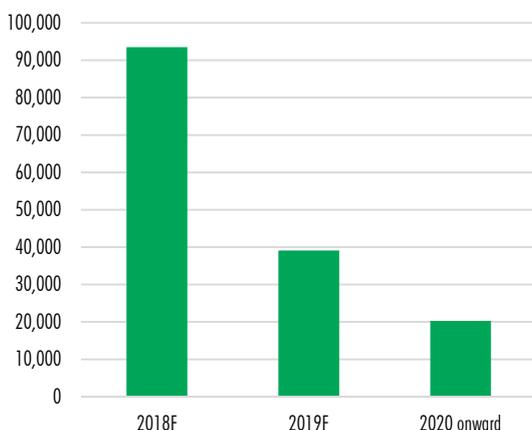
**Figure 6: Average Quoted Office Rental Rates (USD/SQM/Month) (2012 – Q1 2017)**



\*Exclusive of service charge

Source: CBRE Research, Q1 2017

**Figure 7: Strata-title Office Under Construction / Announced (2018f – 2020 onward)**



Source: CBRE Research, Q1 2017

**SUPPLY**

A total of 17,000 sqm across two office buildings was added to the capital’s Grade-C stock during the first quarter of 2017, representing a 6% increase in the total office stock.

Exchange Square, the second Grade-A office in Phnom Penh, is on-track to deliver 18,000 sqm of new office space during Q2 2017.

In the wake of new supply, the overall occupancy rate was broadly stable during Q1, recording a marginal decrease to 75.7%, from 75.9% during the previous quarter. CBRE estimate the total net absorption in Q1 was approximately 6,000 sqm.

**RENTS**

Average rents across all grades were stable in Q1 2017 compared to the previous quarter, whilst when compared with the corresponding period last year rents were 0.7% lower.

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

**STRATA-TITLE OFFICE**

As of Q1 2017, 11 strata-title office projects comprising a total of 150,000 sqm have been announced or are under construction. More than 90,000 sqm of strata-title offices are set to be delivered by the end of 2018, with a further 40,000 sqm in 2019. Average quoting prices for strata-title office stood at approximately US\$3,300 per sqm as of Q1 2017.

We expect to see continued interest from both local and international developers in the strata-title office market over the course of 2017.

**SUPPLY**

By the end of 2018 the supply of modern retail space in Phnom Penh is set to double from the current levels of supply. These increases are primarily driven by a combination of new shopping complexes developed by international groups and significant retail components within residential led mixed-used schemes.

Following the success of TK Avenue, CBRE are aware of a number of planned community mall developments either announced or under construction, two of which are due to complete between 2017 and 2018.

**RENTS**

Prime retail rents were stable over the course of the first quarter of 2017, although prime rents at shopping malls decreased slightly to US\$31.1 per sqm per month, representing a decrease of 0.9% q-o-q but an increase of 1% compared with Q1 2016.

As of Q1 2017, the highest average prime rents were attributed to retail arcades at US\$52.5 per sqm, followed by retail podiums at US\$48.3 per sqm.

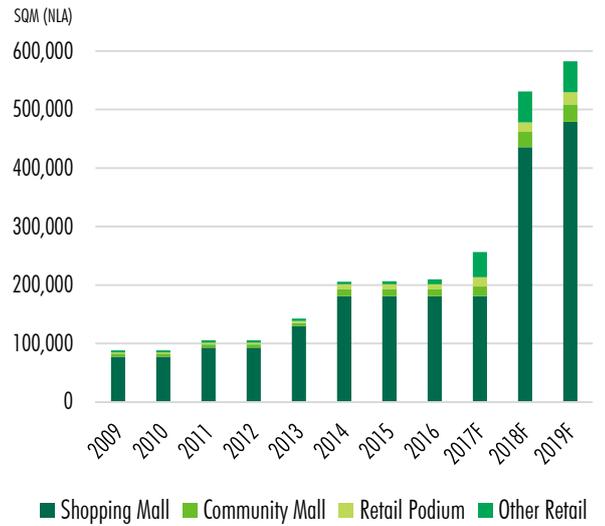
Achieved rents are noted to have fallen within aging retail stock, where competitive rents are offered to attract tenants in the face of changing consumer preferences and an increasing supply of international quality stock.

**DEMAND**

According to the CBRE’s research, the top three occupiers of shopping malls in Phnom Penh are Fashion & Accessories, Food & Beverage and Entertainment; together they occupy a total of 62% of existing retail space within shopping malls in the city.

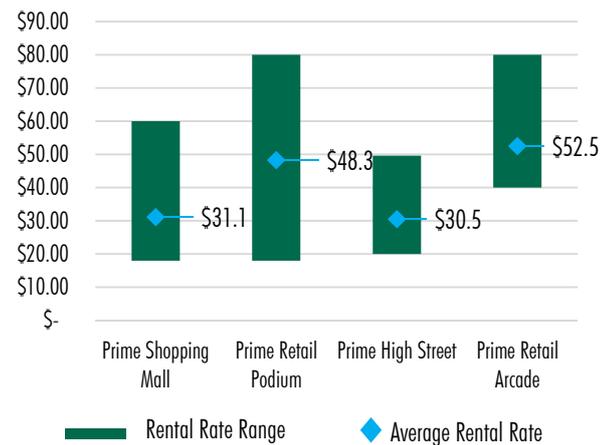
The expansion of Phnom Penh’s middle-class acts as a key driver to the trend of international brands entering the city’s retail scene. CBRE expects to see sustained demand principally from Food & Beverage and Fashion & Accessories retailers across 2017.

**Figure 8: Retail Supply by Type (2009-2019F)**



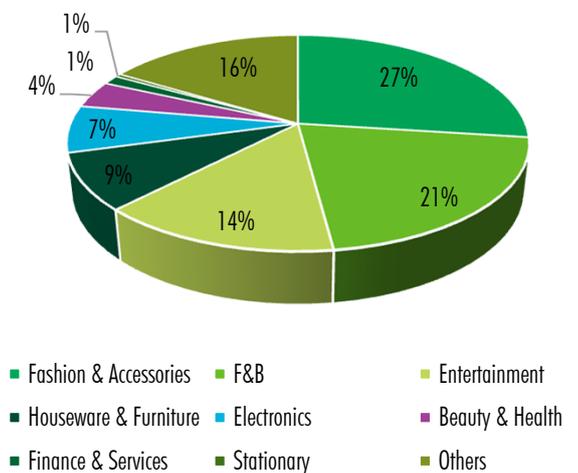
Source: CBRE Research, Q1 2017

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

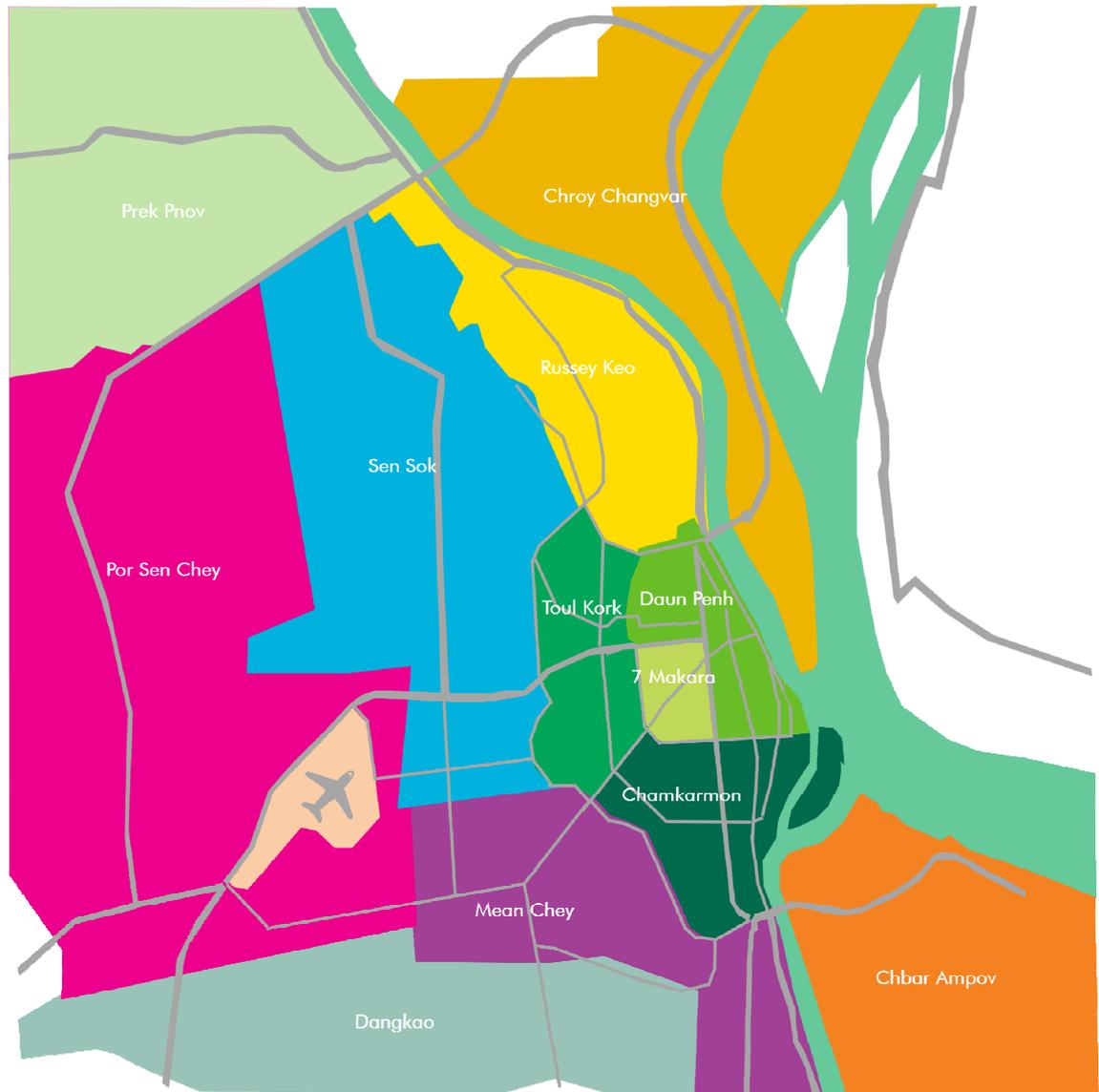


Source: CBRE Research, Q1 2017

**Figure 10: Phnom Penh Retail Demand**



Source: CBRE Research, Q1 2017



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