

Phnom Penh, Q1 2018

Office Continues Stable Growth, Meanwhile

High-End Residential Market Starts To Cool



*Arrows indicate change from the previous quarter.

HIGHLIGHTS

Two condominium projects were launched off-plan, and are set to deliver a total of 2,244 units three year project horizons, both developments target middle-class Cambodian buyers.

Quoting sales prices for mid-range and high-end condominiums depreciated by 2% q-o-q, whilst quoting sales prices of affordable condominiums rose by 7% q-o-q.

Rents of high-end and mid-range condominiums in prime locations dropped by 3.8% q-o-q.

Occupancy of office stood at 82.7% during Q1 2018.

Rents in both the office and retail sectors were stable during Q1 2018, compared to the previous quarter.

As of Q1 2018, land prices in the capital's principal districts saw average growth of 1.2% q-o-q and 4.2% y-o-y.

Prime gross initial yields stood at an average 7.6% in Q1 2018, whilst the average rate for a one-year fixed deposit in USD was 4.0% per annum.

By the end of Q1 2018, condominium supply had increased to close to 10,000 units, rising by approximately 14% q-o-q. 2018 is set to see a substantial amount of condominium supply, with circa 12,000 units due to complete this year.

Quoting sales prices for condominiums dropped by 2% across the quarter for both the mid-range and high-end sectors, whilst in the affordable segment prices appreciated by 7% compared to Q4 2017. Rents of condominiums in prime locations decreased by 3.8% q-o-q.

OVERVIEW

Cambodia's economy is expected to continue to grow by 6.9% this year despite the dampening effects of the General Election. The projected growth is driven by the robust performance of the tourism, construction and garment sectors.

According to the Ministry of Land Management, Urban Planning and Construction, the value of approved investments into the property sector totaled US\$365 million across 586 projects nationwide during the first two months of 2018. The reported value is considerably lower than seen during the same period in 2017.

The office sector continued to perform well across all parameters, with overall occupancy remaining at 82.7% despite increased supply and rents holding steady across the quarter.

In addition to condominiums, 2018 is set to be the year of the retail mall, with supply set to double by the end of Q4. Although quoting rents were broadly stable across the first quarter of 2018, CBRE have witnessed some retail complexes, especially those with aging stock in secondary locations, offering significant rental discounts and other incentives in order to attract and retain tenants.

SUPPLY

Over the course of Q1 2018, some 1,200 units were completed, total supply increased by 14% to reach almost 10,000 units.

As of Q1 2018, supply of high-end condominiums accounted for 19.2% of total supply. 2018 is set to see a huge wave of condominium supply, predominantly focused on both the mid-range and high-end segments; total supply is set to double, reaching circa 20,000 units by the end of the year.

During Q1, only two condominium projects launched off-plan sales. The two projects, located within Sen Sok and Mean Chey districts, are set to deliver a total of 2,244 units, and are targeted at the affordable segment to attract middle-class buyers.

SALES PRICES

By the end of Q1 2018, we saw an approximate 2% downward adjustment to both mid-range and high-end condominium prices, compared to previous quarter. In the main, price adjustments are seen as an attempt to try and generate more off-plan sales from market savvy Cambodian investors.

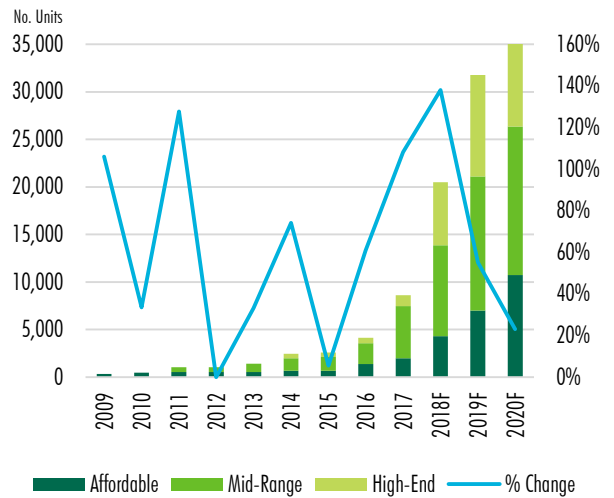
In contrast, quoting prices in the affordable segment witnessed an average increase of 7% q-o-q.

CONDOMINIUM RENTS

Rents for both mid-range and high-end condominium units in prime locations witnessed an average fall of 3.8% q-o-q, to end the quarter at an average of US\$12.50 and US\$15 per square meter per month, respectively.

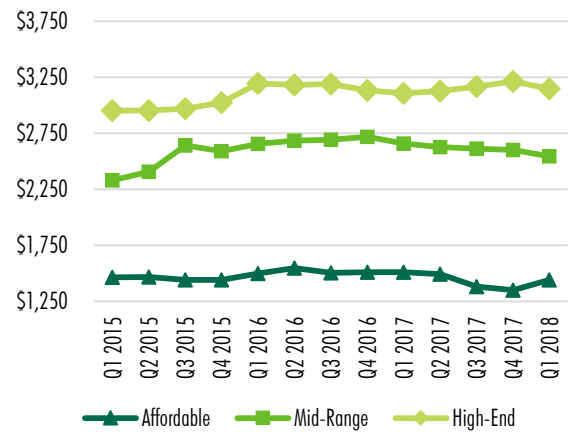
This downward adjustment, particularly for high-end condominiums in prime locations, is predominately driven by environmental factors including the affects of construction noise caused by ongoing high-rise developments in the immediate vicinity. Some Landlords have provided significant discounts on rents to attract more tenants, who have a rapidly increasing array of new properties from which to choose.

Figure 1: Phnom Penh Condominium Supply by Grade (2009-2020F)



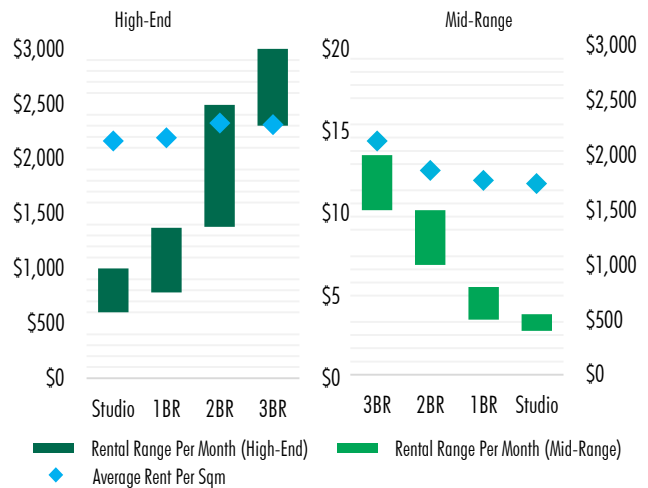
Source: CBRE Research, Q1 2018

Figure 2: Average Price Per Sqm of Phnom Penh Condominiums (Q1 2015-Q1 2018)



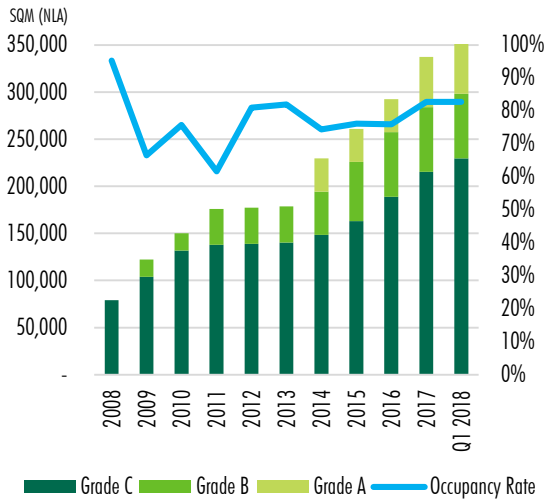
Source: CBRE Research, Q1 2018

Figure 3: Monthly Rents and Average Per Sqm Rents Per Month of Phnom Penh Condominiums (High-End & Mid-Range) (USD)



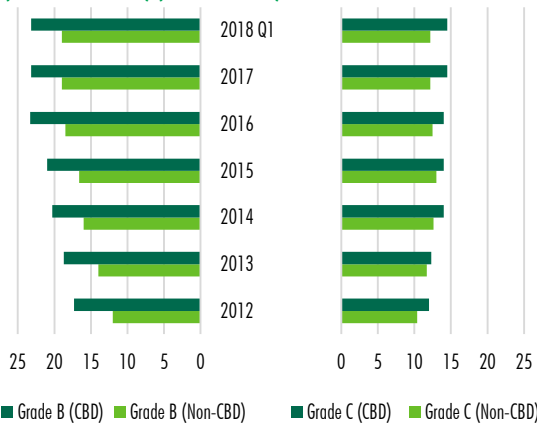
Source: CBRE Research, Q1 2018

Figure 4: Phnom Penh Office Supply by Grade (2008-Q1 2018)



Source: CBRE Research, Q1 2018

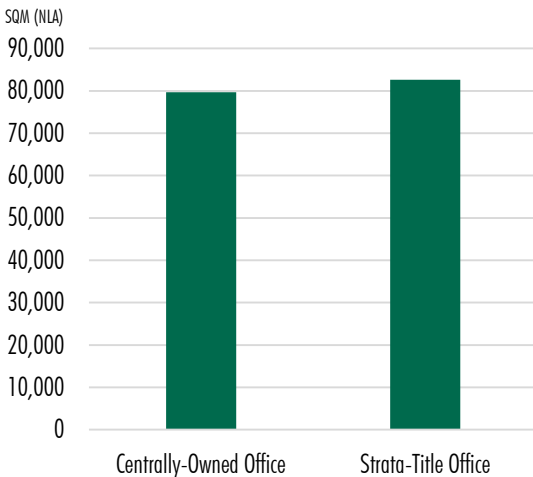
Figure 5: Average Quoted Phnom Penh Office Rental Rates (USD/SQM/Month) (2012-Q1 2018)



*Exclusive of service charge

Source: CBRE Research, Q1 2018

Figure 6: Future Office Supply by Type (Q2'18 – Q4'19)



Source: CBRE Research, Q1 2018

SUPPLY

One office building was completed during Q1 2018, adding approximately 14,350 square meters of Grade-C space to the market. As a result, the modern office market saw an increase of 4% in total supply compared to the previous quarter.

Despite new supply, overall occupancy across the market remained at 82.7% at the end of Q1 2018, with take-up within Grade-A stock continuing the trend of gradual improvement witnessed over the course of the last 12 months.

RENTS

Average rents across all grades were stable across the first quarter of 2018. Grade B rents are quoted at between US\$15 and US\$26 per square meter per month, whilst Grade C rents are quoted in the range of between US\$8 and US\$18 per square meter per month.

Grade A rents are quoted at between US\$28 and US\$38 per square per month, excluding service charge of US\$5.

FUTURE OFFICE SUPPLY

As of Q1 2018, approximately 160,000 square meters of office space is set to be delivered during the next 21 months. The first strata-title office is set to complete during Q2 2018, with two further strata-title office buildings being delivered over the course of 2018. Keystone Building is on course to add a total of 15,000 square meters of new international standard Grade-B space by July 2018.

Compared to the figure in the previous quarter, the volume of strata-title and centrally-owned office space under construction has evened out. This levelling is a result of a few strata-title offices and condominium buildings that could not achieve significant off-plan sales having been postponed or repositioned as centrally-owned offices in order to take advantage of this sector's solid performance to date.

SUPPLY

No new retail space was delivered over the course of Q1 2018. Similar to the condominium sector, 2018 is set to witness significant levels of new retail supply, with total supply set to double by the year end.

As of Q1 2018, a total of 470,000 square meters of modern retail supply is under construction. Future retail supply in Phnom Penh is not only to be found in prime locations; approximately 50% of retail space currently under construction is to be found located in secondary districts, with Sen Sok set to surpass Chamkarmon as the top destination for new supply, with 29% of new retail space to be delivered in this urban-fringe location during the coming 24 months.

Japanese retailer/developer, AEON, is on course to launch its second mall in Sen Sok district, delivering 70,500 square meters of net lettable retail space in Q2 2018. In addition, the recently topped out Midtown Mall is scheduled to open as the district's first community mall by the end of this year.

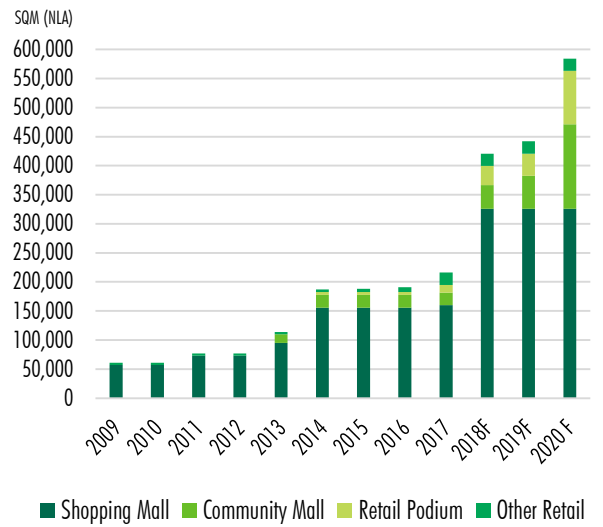
During Q1 2018, Peng Huoth Group announced two retail projects to the south of Phnom Penh, as part of their residential-led developments on Hun Sen Boulevard and National Road 1. Combined, the projects are set to deliver a total of 90,000 square metres of retail space based on net leasable area, by 2020 and 2021, respectively.

RENTS

During Q1 2018, quoting retail rents were broadly stable across prime retail complexes compared to the previous quarter, although the market continues to witness discounting by Landlords when negotiations start in order to attract tenants, particularly anchor tenants or those of attractive covenant.

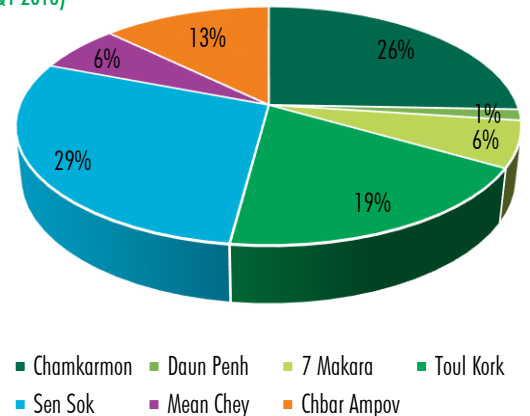
Aging retail stock with lower foot traffic, especially in secondary locations, have reduced achievable rents to attract and retain tenants and in order to try and reduce vacancy.

Figure 7: Phnom Penh Retail Supply by Type (2009-2020F)



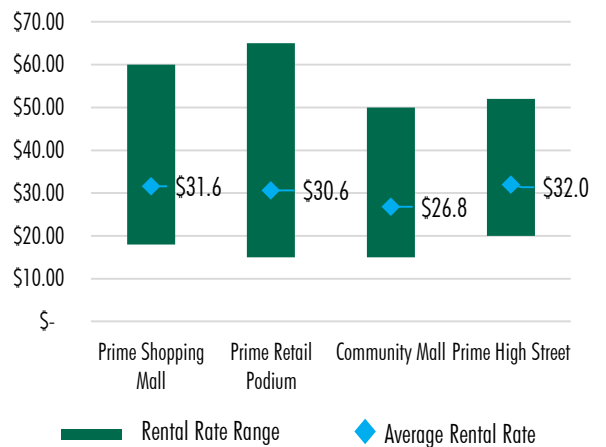
Source: CBRE Research, Q1 2018

Figure 8: Future Retail Supply by Location (under-construction as of Q1 2018)



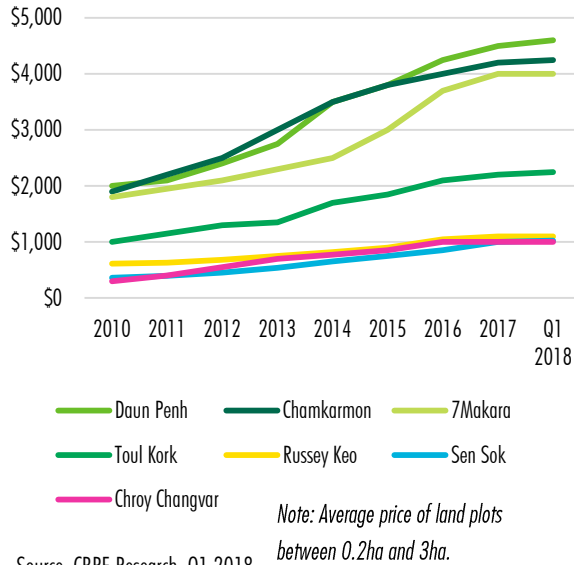
Source: CBRE Research, Q1 2018

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



Source: CBRE Research, Q1 2018

Figure 10: Indicative Land Prices by District in Phnom Penh (USD/SQM)



Source: CBRE Research, Q1 2018

LAND MARKET

As of Q1 2018, Phnom Penh saw an increase in land prices in the principal districts, with an average growth of 1.2% compared to the previous quarter and 4.2% compared to the same period last year. Meanwhile, average land prices in the capital's four main districts rose by 1.4% q-o-q and 5.4% y-o-y.

Chroy Changvar district saw no increase in land prices across the quarter, a repeat of its performance in 2017 and in the wake of rapid growth averaging 20% per annum between 2010 and 2016. The stagnant growth of land prices in Chroy Changvar is attributed to the renovation of Chroy Changvar Bridge and a reduction in development activity. CBRE anticipate that as infrastructure connecting the peninsular with the mainland capital improves, there will be a further boost in development activity which in turn will drive land prices appreciation.

INVESTMENT

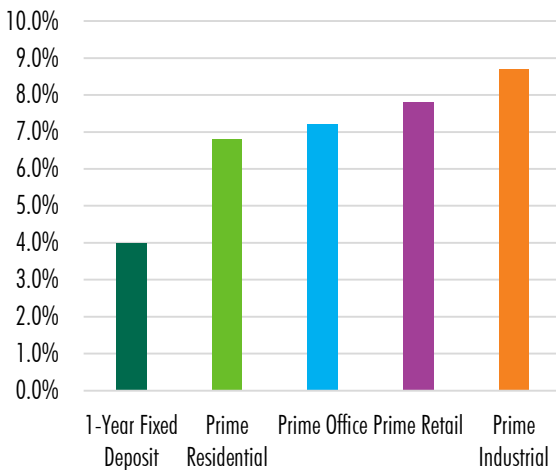
As of Q1 2018, prime gross initial yields across the four predominant real estate sectors averaged 7.6%, representing a premium of 3.6% over the average 12-month fixed deposit rate.

Gross initial yields for high-end residential in prime locations was in the range of 5% to 9%, while gross initial yields for office property was calculated at between 6% and 9%.

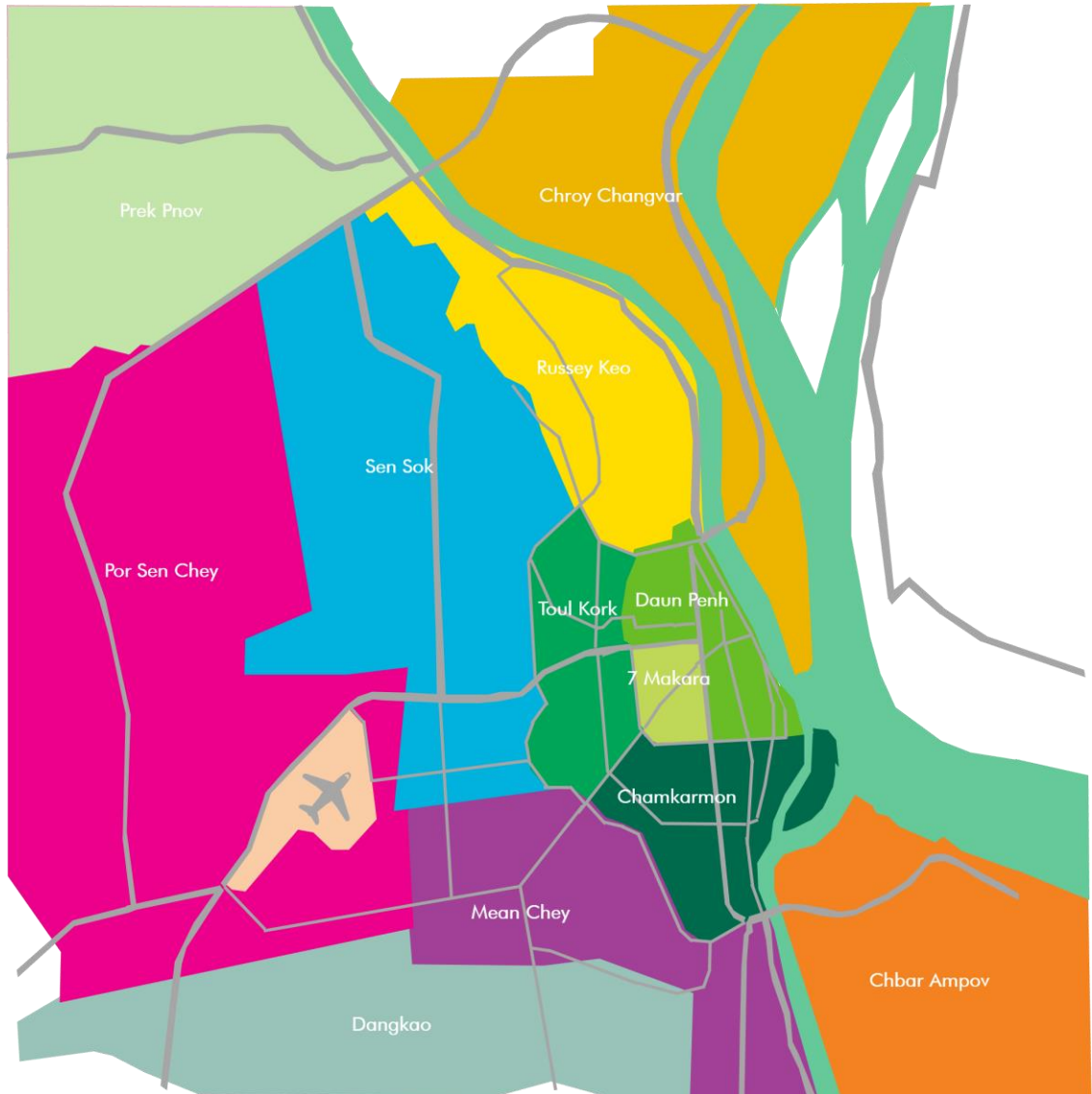
The one year fixed deposit rate at commercial banks in USD currency ranges between 1.25% and 5.25% per annum.

It is worth noting that a lack of transacted evidence across the market makes the analysis of gross initial yields for property investment in Phnom Penh difficult. The analysis of prime gross initial yields was derived from both existing and off-plan real estate.

Figure 11: Estimated Gross Initial Yield (Q1 2018)



Source: CBRE Research, Q1 2018



For further information, please contact:

James Hodge
Associate Director
+855 89 333 722
james.hodge@cbre.com

Muyngim Lim
Senior Manager
+855 98 331 771
muyngim.lim@cbre.com

Sonic Sovuth
Analyst
+855 95 777 982
sonic.sovuth@cbre.com

Kimsea Chea
Analyst
+855 89 333 662
kimsea.chea@cbre.com

*CBRE Cambodia
9th Floor, Phnom Penh Tower
#445 Monivong Blvd
Boeung Prolet Quarter
7 Makara District
Phnom Penh, Cambodia*

*T+855 23 964 099
F+855 23 964 088
cambodia@cbre.com
www.cbre.com.kh*

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at www.cbre.com/researchgateway