

Phnom Penh, Q2 2018

Construction Investment Cools In Lead Up To General Election

 Average High-end Condominium Price
\$3,211/SQM

 Prime Condominium Rent
\$14.3/SQM

 Prime Office Rent
\$25.5/SQM

 Prime Retail Mall Rent
\$40.0/SQM

*Arrows indicate change from the previous quarter.

HIGHLIGHTS

An approximate 2,000 condominium units were completed in Q2, with five new projects launching off-plan sales and adding a total of 2,256 units to the supply pipeline.

Quoting sales prices for affordable and mid-range condominiums remained stable, while high-end units appreciated by 2% q-o-q.

Whilst total supply fell by 3.3%, overall office occupancy grew 5 p.p. to 87.7% over Q2 2018.

Quoting rents for offices in CBD locations grew by 6% and 3.4% for Grade-B and Grade-C, respectively.

Over Q2 2018, total retail supply grew by 43% compared to the previous quarter.

The second quarter of 2018 continued to witness a rise in the wave of condo units completed with supply on-track to exceed 20,000 units by the end of 2018.

Growth in new supply is placing growing downward pressure on condo rents. By the end of Q2, asking rents in the mid-range segment witnessed a steep decline of 12% q-o-q, whilst in the high-end segment rent fell 5% q-o-q.

The office market remained robust during the second quarter of 2018, with occupancy reaching a new peak of 87.7%. Quoting rents for Grade-B offices in the CBD increased by 6% q-o-q, while Grade-C rents saw a growth of 3.4% q-o-q. Quoting rents for office space in non-CBD locations remained stable over the course of Q2 2018.

As the office market continues to modernize, some aging buildings are starting to close or undergo renovation in order to provide a higher level of specification and service required to compete for tenants. Over Q2, total supply dropped by 3.3% compared to the previous quarter due to this trend.

During this quarter, three retail complexes were completed and retail supply grew by a remarkable 43% q-o-q. Japanese developer AEON led the pack, delivering approximately 85,000 sqm of retail space based on gross lettable area. Vacancy in the retail sector dropped sharply to below 10% as of Q2 2018, helped by strong pre-leasing activity by AEON, whilst quoting rents for retail complexes witnessed no significant change over the second quarter.

OVERVIEW

According to the Ministry of Land Management, Urban Planning and Construction, investment into construction during the first five months of 2018 was valued at US\$1.78 billion, with 1,370 projects approved across the kingdom. Investment was significantly cooler than the corresponding period last year when US\$4.4 billion was approved. Whilst the reduction is substantial on paper, the difference is largely due to a single project launched last year with an investment value of over US\$2.2 billion. Weaker market sentiment as a result of uncertainty surrounding the upcoming general elections is considered to be the most prominent factor in the remaining shortfall in new investment.

SUPPLY

With the completion of circa 2,000 units throughout the course of Q2 2018, the supply of condominiums reached a total of 11,830 units, presenting an increase of 20% quarter on quarter. More than 80% of the units completed during the second quarter are located in Chamkarmon district, the city's high rise hot spot.

The second quarter of 2018 witnessed the first substantial increase in new launches for almost two years with five new projects announced, together adding a total of 2,256 units to the supply pipeline. Among the five projects, *L'attrait BOEUNG KENG KANG* which targets the high-end sector, attracted a presale rate of circa 65% by the end of Q2 2018, while the other four projects are located in secondary districts and targeted at the affordable segment to appeal to the growing number of middle class Cambodian buyers.

SALES PRICES

Quoting sale prices for affordable and mid-range segments were broadly stable over the course of Q2 2018 compared to the previous quarter. Amongst high-end projects, the market witnessed a slight price increase of approximately 2% during Q2, following a fall of 2% over the previous quarter. The upward price adjustment is largely driven by a number of projects nearing practical completion.

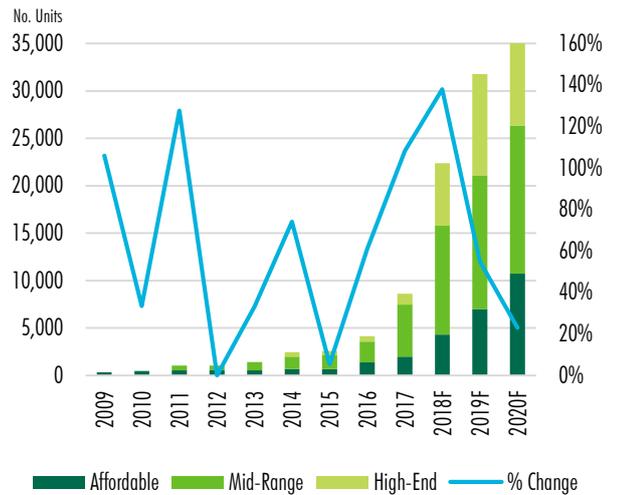
Q2 2018 witnessed a stable sales rate for well-located and well-designed developments in primary and secondary districts. A couple of projects with low pre-sale rates have redesigned their floor plate layout to offer smaller units that can be afforded by lower-middle income households.

CONDOMINIUM RENTS

The second quarter of 2018 continued to see a downward adjustment in rental rates for both mid-range and high-end condominiums, ending the quarter at an average of US\$11 and US\$14.25 per square meter per month, respectively.

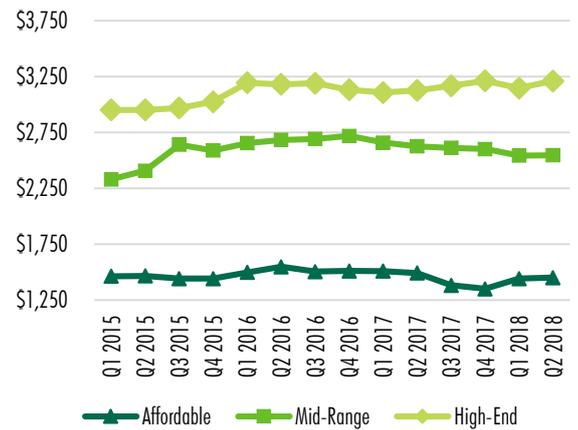
Over Q2, asking rents for mid-range units saw a rapid decline of 12% q-o-q, whilst high-end properties saw an average reduction of 5% q-o-q.

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



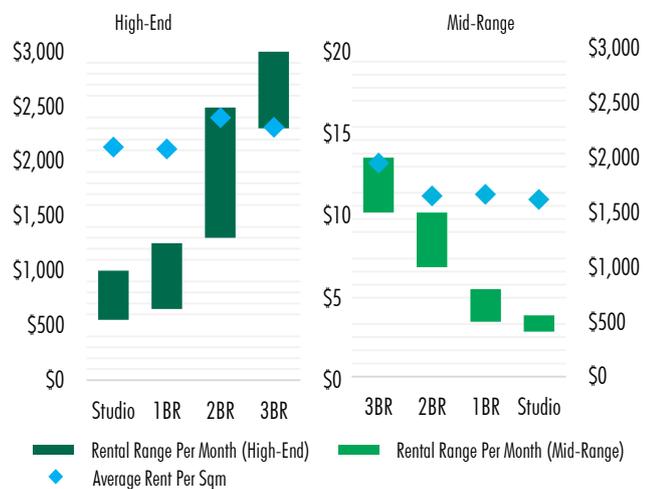
Source: CBRE Research, Q2 2018

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



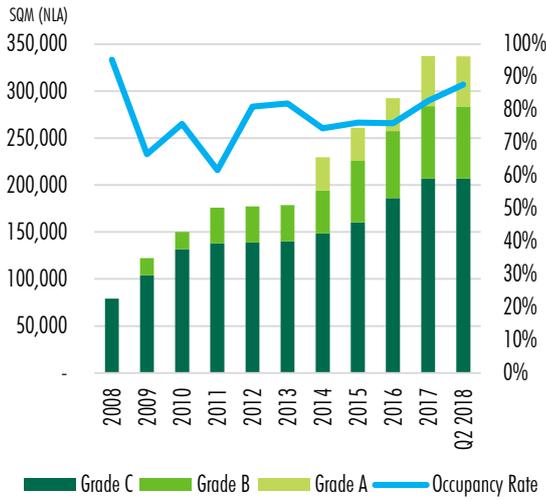
Source: CBRE Research, Q2 2018

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



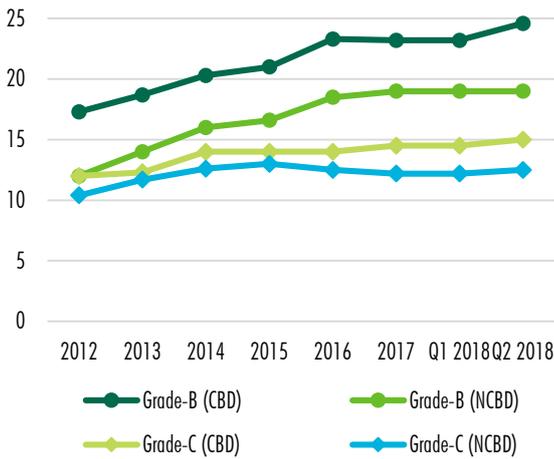
Source: CBRE Research, Q2 2018

Figure 4: Phnom Penh Office Supply by Grade (2008-Q2 2018)



Source: CBRE Research, Q2 2018

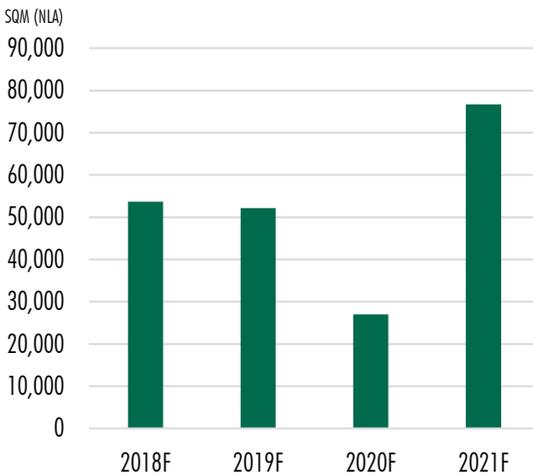
Figure 5: Average Quoted Phnom Penh Office Rental Rates (USD/SQM/Month) (2012-Q2 2018)



*Exclusive of service charge

Source: CBRE Research, Q2 2018

Figure 6: Future Centrally-Owned Office Supply (2018F – 2021F)



Source: CBRE Research, Q2 2018

SUPPLY

Total supply decreased by 3.3% compared to the previous quarter, whilst the overall occupancy rate reached a new peak of 87.7%, up five percentage points from 82.7% in Q1. The demand for modern office space is driven by the continued expansion of both local and foreign corporations, in addition to the relocation of some organizations from traditional villas to modern format multi-let office buildings.

Decreases in supply were caused by the closures of aging stock in the Grade C sector as Landlords look to refurbish or redevelop older properties in order to remain competitive. New supply, including *Keystone*, *East Commercial Center* and *E.SUN Tower* are all set to complete during the coming quarter, delivering circa 34,000sqm of new Grade B stock.

RENTS

Over the course of Q2 2018, quoting rents for Grade-B and Grade-C stock in the CBD rose by 6% and 3.4%, respectively, quarter on quarter. Meanwhile office rents in non-CBD locations were relatively stable over the quarter.

Despite occupancy of Grade-A buildings showing improvement, quoting rents for Grade-A space remain in a range between US\$28 and US\$38 per square meter per month, excluding service charge.

FUTURE OFFICE SUPPLY

As a result of consistent demand for office space, CBRE witness increasing interest from both local and foreign investors in the capital's office market. As of Q2 2018, there are 16 office projects, planned or under construction, with the combined projects set to offer a total of circa 200,000 square meters based on net lettable area by the end of 2021.

Future supply is predominantly focused on the Grade B sector, whilst Grade A supply is back-loaded and set to make further in-roads from 2021 onwards.

SUPPLY

During Q2 2018, AEON launched its second shopping mall, delivering an approximate 85,000 square meters of space based on a gross lettable area basis, in Sen Sok district in the north of Phnom Penh. In addition, *Prince Central Plaza* launched its retail podium and *The Park* opened its doors to customers. Overall, retail supply grew by circa 43% compared to the previous quarter.

MiDTOWN Mall, *The Bridge* and *The Olympia Mall* are all scheduled to complete and add an approximate 55,000 square meters based on net lettable area to the retail stock before the end of 2018.

RENTS

During Q2 2018, quoting retail rents were stable across the retail centers in Phnom Penh compared to the previous quarter, a continuation of a year long trend. However, flexible rental terms are likely to be offered by some Landlords, especially when attracting anchor tenants.

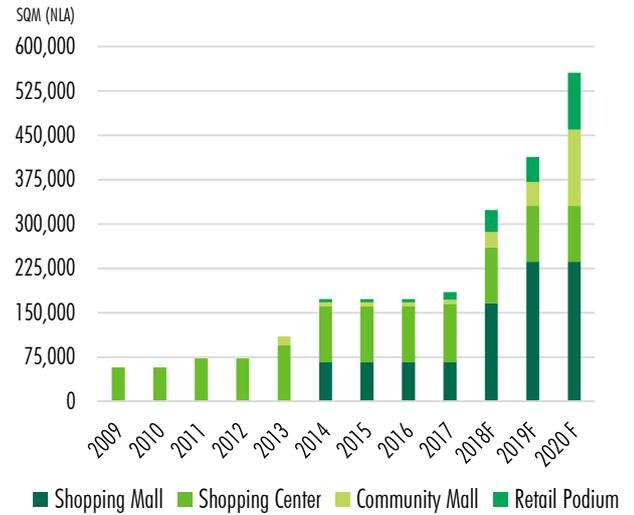
Following *AEON Sen Sok City's* opening, we have seen some small and medium size local F&B retailers targeting space within modern retail complexes, as opposed to the traditional model of occupying standalone shophouses or villas. We expect to see a continuation of this trend with local retailers attracted by high foot traffic at modern format shopping centers.

VACANCY

By the end of Q2 2018, overall vacancy amongst retail centers dropped to below 10%, driven by almost full occupancy at both AEON malls which when combined account for about half of the total current supply of modern retail space in Phnom Penh.

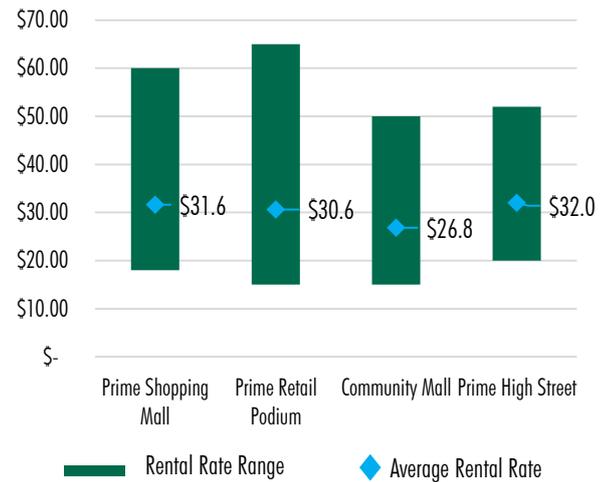
With more shopping complexes due to complete over the next 18 months, CBRE anticipate that vacancy will increase, a result of some projects struggling to achieve pre-commitments in the face of increased competition.

Figure 7: Phnom Penh Retail Supply (2009 – 2020F)



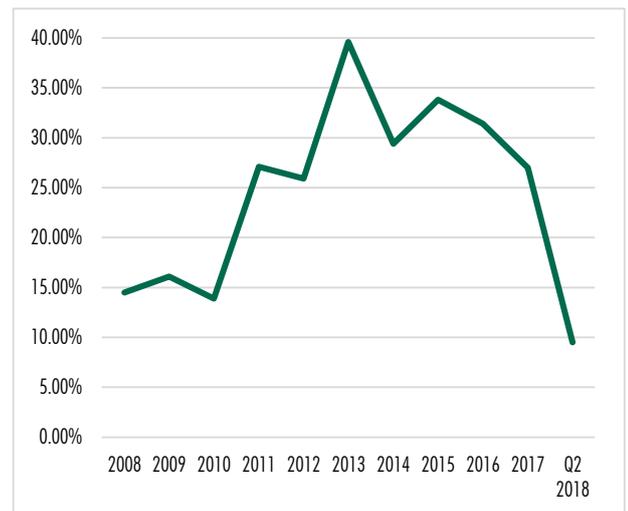
Source: CBRE Research, Q2 2018

Figure 8: Quoted Retail Rental Rates by Type (USD/SQM/Month)



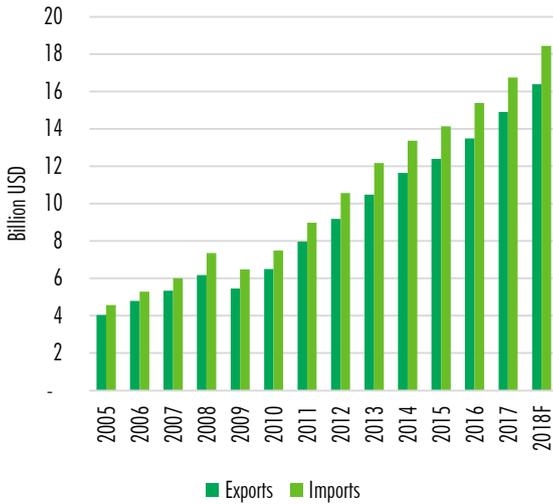
Source: CBRE Research, Q2 2018

Figure 9: Vacancy Rate of the Phnom Penh Retail Supply (2008 – Q2 2018)



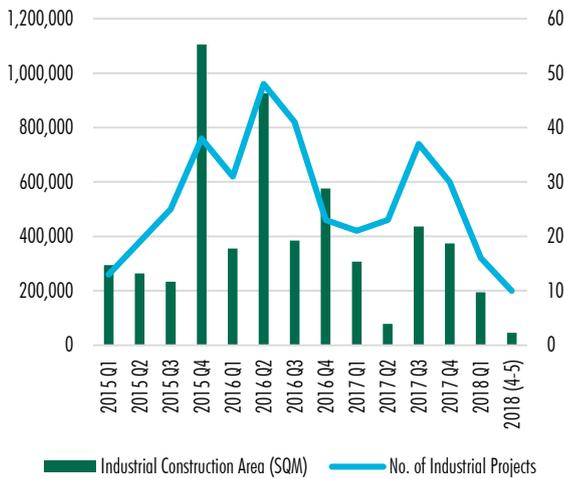
Source: CBRE Research, Q2 2018

Figure 10: Cambodia Exports and Imports 2005 – 2018F (2005 Prices)



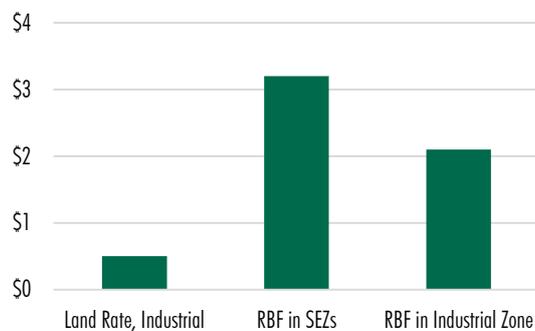
Source: Oxford Economics

Figure 11: Approved Industrial Construction Projects Nationwide (Q1 2015 – May 2018)



Source: Ministry of Land Management, Urban Planning and Construction

Figure 12: Average Rents of Industrial Properties in Phnom Penh and Surrounding Phnom Penh (USD/SQM/Month)



* Excluding services charge and maintenance fee

Average Rents for Industrial Land (USD/SQM/Month) | Average Rents for Ready-Built-Factory (USD/SQM/Month)

Source: CBRE Research, Q2 2018

TRADE

Oxford Economics forecast that this year Cambodia’s export and import markets will grow by 9.9% and 10.1% y-o-y, respectively. A majority of Cambodia’s exports are garment and textile products. Benefiting from preferential trade agreements with the European Union and the United States, Cambodia’s manufacturing sector is gradually diversifying.

Cambodia surpassed Taiwan to become the largest bicycle supplier to the European Union last year. According to a report by a leading industry newsletter, Cambodia exported more than 1.42 million bicycles last year, an increase of 9% compared to the previous year,

INDUSTRIAL SUPPLY AND DEMAND

The number of approved construction projects within the industrial sector totalled 26 during the first five months of 2018, with a combined construction area of circa 240,000 square meters.

The level of investment into construction for the industrial sector was reduced during the first five months of 2018 compared to the second half of 2017, predominantly driven by uncertainty surrounding the upcoming general election.

INDUSTRIAL RENTS

During the second quarter, no significant increases in industrial rents were identified. Average rents for industrial land along the main national roads surrounding Phnom Penh were quoted at an average of US\$0.5 per sqm per month.

Average rents for Ready-Built-Factories (RBFs) in SEZs and other industrial zones were recorded at US\$3.2 and US\$2.1 per sqm per month, respectively. The higher rent quoted at SEZs is a product of increased demand for the well established infrastructure available within these highly planned, purpose-built locations.

CELEBRATING 10 YEARS IN CAMBODIA



The first half of 2018 marked the start of another fruitful year for **CBRE Cambodia** which first established a permanent footprint in the kingdom back in 2008. **CBRE Cambodia** provides a full range of real estate services, including research and advisory services, valuation, property management, and a full compliment of commercial and residential agency and transaction services.

In May 2018, **CBRE Cambodia** received two awards including “**Best Property Consultancy**” and “**Best Real Estate Agency**” in Cambodia at the prestigious Asia Pacific Property Awards held in Bangkok, Thailand.

In early July, at the Cambodia Real Estate Awards organized by local property portal, realestate.com.kh and recognized by the Ministry of Economy and Finance, **CBRE Cambodia** received awards in four different categories – “**Commercial Agency of the Year**”, “**Agency of Choice Award**”, “**Property Management Company of the Year**” and “**Rental Agent of the Year**”.

The awards by both local and international organizations are evidence of **CBRE Cambodia**’s dedication to building distinct advantages for all of our clients and to our passion for developing the Cambodian real estate market as well as the continued support of our clients and team.



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