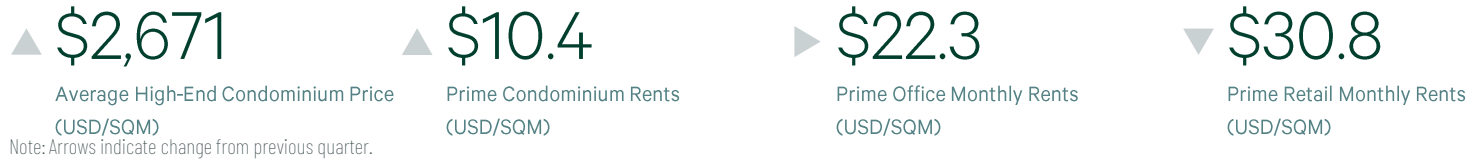


Phnom Penh Market Insights Q2 2022

Changes that matter



Macroeconomic foundation remains strong whilst short-term challenges persist

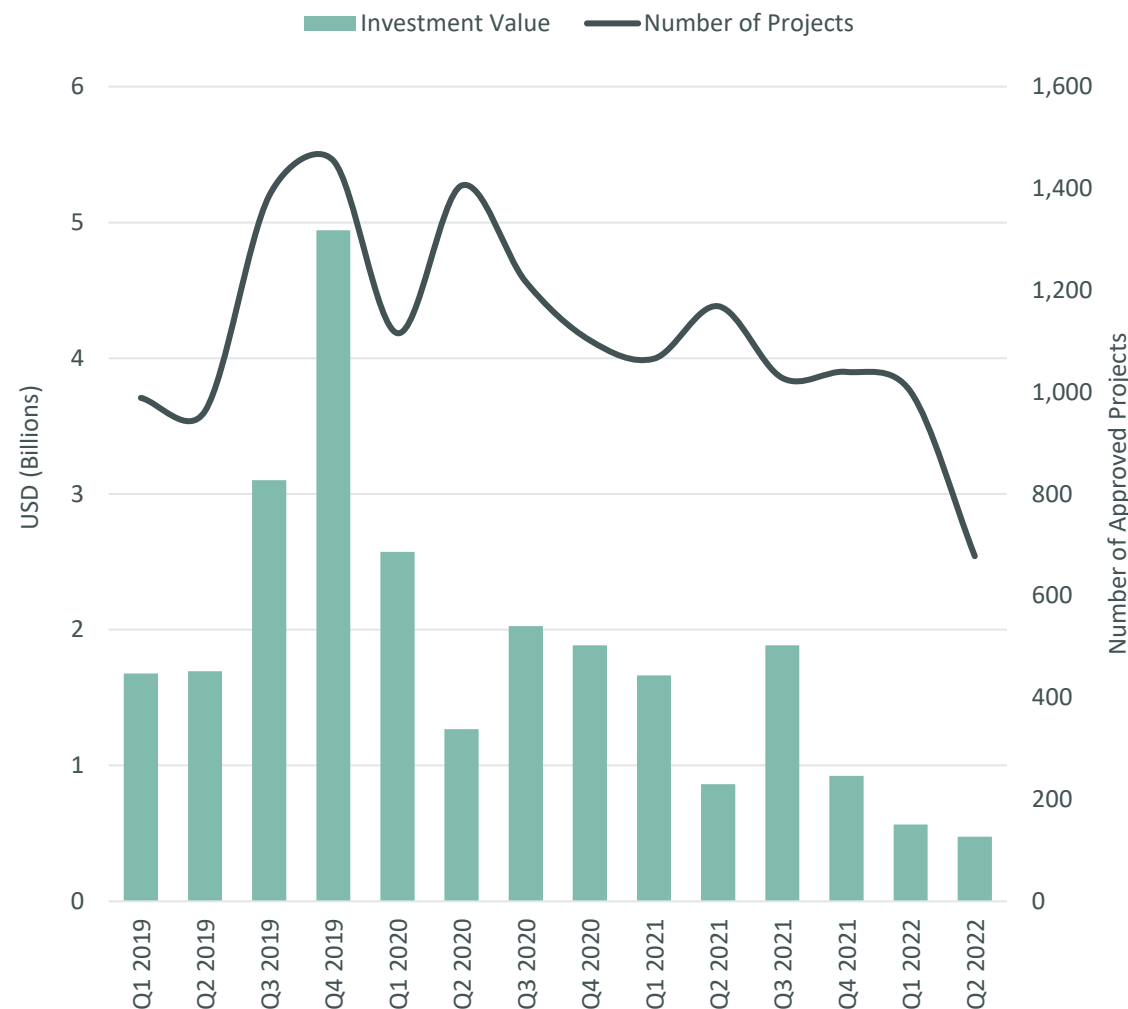


-
- The first half of 2022 presented many remarkable milestones for Cambodia; most notably with the effective vaccination rollout strategy from the government with over 90% coverage rate in the country. As a result of this success, the World Bank projected Cambodia’s GDP to grow at 4.5% in 2022.
 - In the first four months of 2022, export value reached US\$6.6 billion, an increase of 36.4% compared to the same period of 2021. Additionally, we saw Cambodia signing Free Trade Agreements with China, South Korea and the wider community of markets linked to the Regional Comprehensive Economic Partnership Agreement.
 - Effective from July 11, 2022, unvaccinated travellers are no longer required to quarantine. This decision aligns with the country’s expectation to rapidly reopen which is moving in the right direction as the country welcomed more than 500,000 travellers in the first half of 2022.
 - The period witnessed important developments for strategic infrastructure within the Kingdom including 94% completion of Phnom Penh-Sihanoukville Expressway, completion of the preliminary study of the Phnom Penh Rail Transit, 32% completion of Techo Takhmau International Airport, and the next phase of Sihanoukville Deep-Sea Port Terminal.
-

Macro Environment

- While the strong economic performance from increasing domestic activity continues, factors such as the general slow down in global demand like rising inflation (forecast at 7% in Cambodia in 2022), tightening economic conditions in the West a major export destination (2022 US GDP growth forecast at 2.5%), slowing down in China’s economic activity (more than 60% of FDI in 2021 came from China), and further growing storm clouds with the outbreak of war in Ukraine are putting pressure on global food and fuel prices.
- Despite the uncertainties, the strong fundamentals, stable political climate and growing manufacturing base in Cambodia are expected to help drive growth, with manufacturing output increasing by 75% Y-o-Y according to the Ministry of Industry, Science, Technology and Innovation.
- The value of approved investments into construction in the second quarter of 2022 remains moderate at circa US\$475 million. This represents a decline in investment value of 16.0% compared to the previous quarter. Although the pattern shows a general decline for several consecutive quarters, the rate of decline is easing. For instance, the growth rate was falling at 51.1%, 38.7%, and 16.0% during Q4 2021, Q1 2022 and Q2 2022, respectively.

FIGURE 1: Approved Investment into Construction (Q1 2019–Q2 2022)



Source: Ministry of Land Management, Urban Planning, and Construction, Q2 2022

FIGURES | CAMBODIA INDUSTRIAL & LOGISTICS | Q2 2022

Land supply remains unchanged, rates remain competitive

▶ 16,000+

Allocated Land (Hectares)

▶ 42

Number of SEZ Projects

▶ \$90.0

50-Year Land Lease Rate
(USD/SQM) (max)

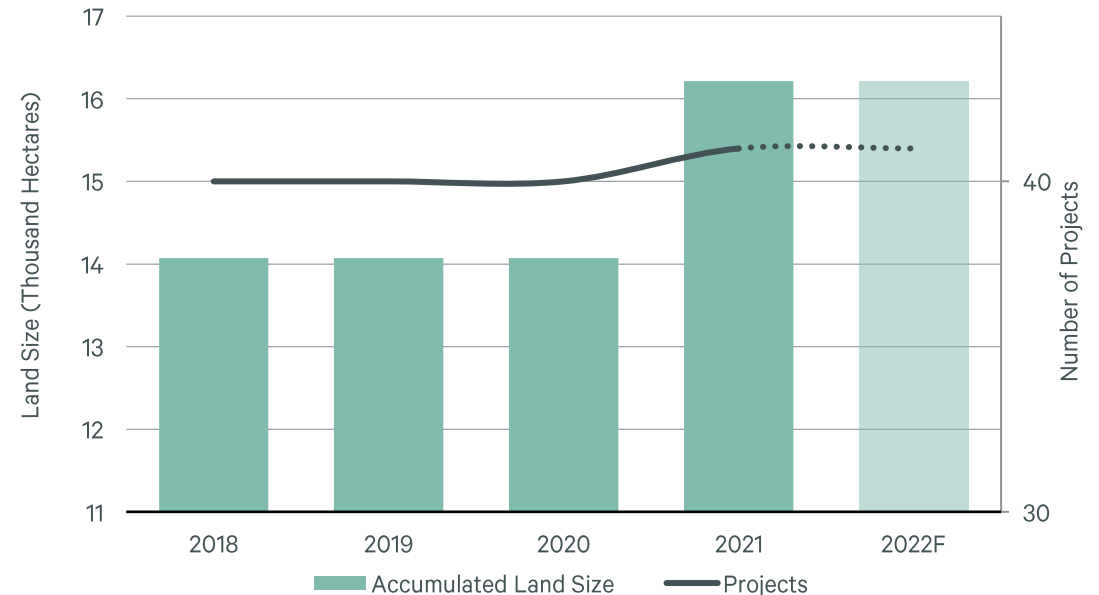
▶ \$42.0

Ready-Built Factory Rents
(USD/SQM) (max)

Note: Arrows indicate change from previous quarter.

- Land allocation for special economic zones (SEZs) in Cambodia had been stable as we saw no recent launches. In 2022, the total number of SEZs remained unchanged at 42 projects at circa 16,016 hectares.
- Out of the total supply, Koh Kong has a total of seven projects representing 33.9% of market supply—the largest allocation of industrial land compared to any other province.
- Sihanoukville maintained over 23.5% of the total SEZs—the largest number of zones in one location—the total land allocation amounts to 2,712 hectares.

FIGURE 1: Land Size and Number of SEZs by Commenced Year (2018–2022F)



Source: Open Development Cambodia, CBRE Research, Q2, 2022

Industrial and Logistics

- Along with rising inflation, external forces such as increasing shipping costs which were up approximately 10%-20% this year according to the Cambodian Logistics Association, disruption in the economic performance of China and limitations with logistics capacity are having a noticeable impact on industrial and logistic market in Cambodia.
- It is worthwhile to note that 69% of FDI in Cambodia is from China in 2021. With rising fluctuations such as the ones mentioned above, uncertainties in China will likely be a slowing factor to developments in Cambodia.
- Pricing for a 50-year land lease ranges from US\$20 to US\$90 per sq. m. The differences in price offered between SEZs averages out at US\$63.3 per sq. m. As most rental contracts often last for a long period of time, the year-over-year change in pricing either remains highly stable or unchanged.
- Pricing for ready-built factory rental rate ranges from US\$2 to US\$4.2 with an average of US\$3 per sq. m. per month, still competitive by regional standards. Although the pricing trend for ready-built factory spaces has remained stable or unchanged in short term, inflation is expected to eventually transfer rising costs to the end customers.

FIGURE 2: 50-Year Land Lease Rate

USD/SQM per 50 years

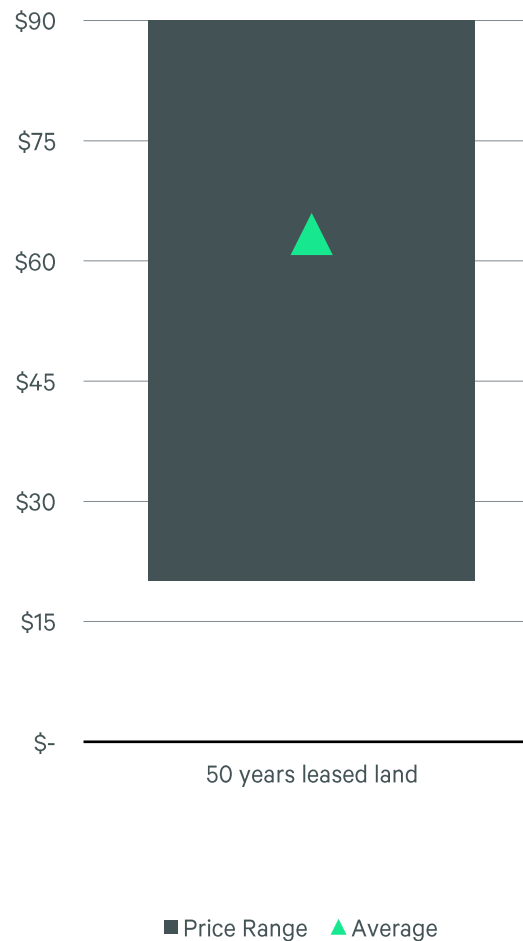


FIGURE 3: Ready-Built Factory Rental Rate

USD/SQM per month



Source: CBRE Research, Q2 2022

Source: CBRE Research, Q2 2022

FIGURES | PHNOM PENH OFFICE | Q2 2022

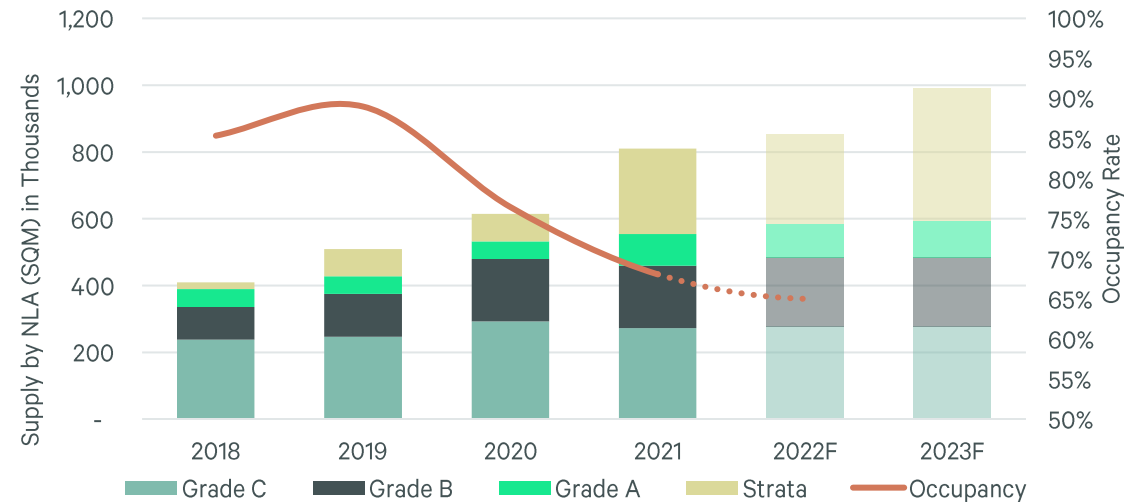
Investors bidding time despite completions, a reflection of an increasingly crowded market

- ▼ 845,000+
NLA Supply sq. m.
- ▶ 66.9%
Centrally Owned Occupancy Rate
- ▶ \$26.5
Grade A Monthly Rents (USD/SQM)
- ▶ \$21.6
Grade B (CBD) Monthly Rents (USD/SQM)

Note: Arrows indicate change from previous quarter.

- Despite construction completions, certain projects are delaying full operations, a possible reflection of lackluster preleasing performance.
- The first Grade A project launch, *FTB Tower*, broke ground in Q2 2022 after one year of no new launches in this category. This is the first office launch in four quarters and will add NLA of 70,000 sq. m., to the total supply in 2025.
- Grade A project supply has been slowing down since the start of 2022 with only one project completion expected by year-end, which is a big contrast to 2021 that welcomed five Grade A offices into the market.

Figure 1: Phnom Penh Office Supply and Centrally Owned Occupancy (2018-2023F)

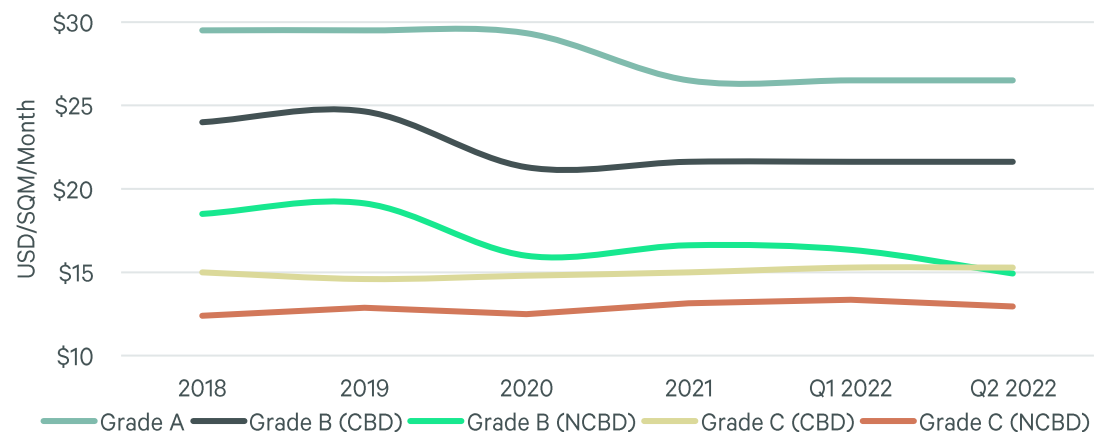


Source: CBRE Research, Q2 2022

Office

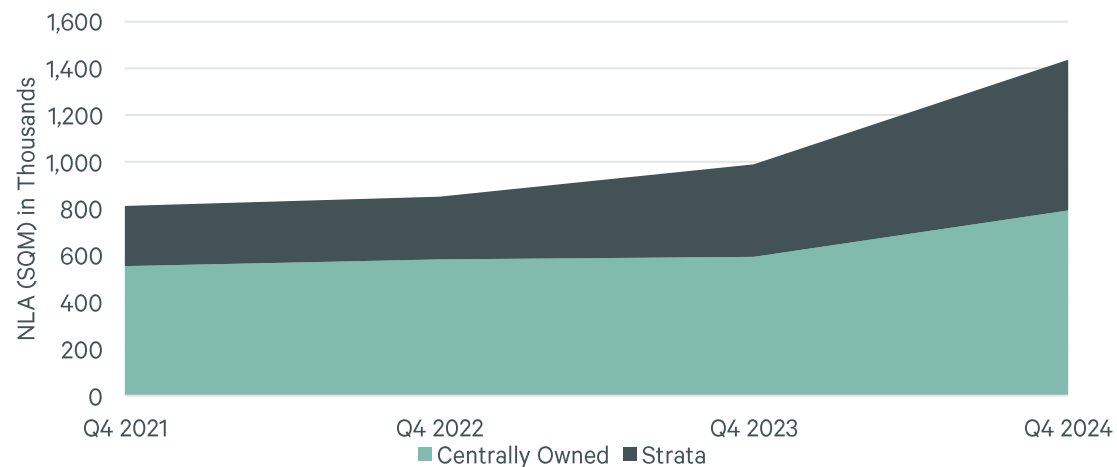
- Unsurprisingly, Grade A and Grade B CBD are the only two grades maintaining their occupancy despite the downward trends in other categories. These two grades bucked the trend with the others experiencing downward movement, especially the Grade B NCBD, with a decreasing occupancy rate of 24.7% Q-o-Q, keeping the average occupancy rate stable.
- Flight to quality continues for tenants seeking new space. Grade, size and rent are the three main criteria occupiers seek. In addition, newer supply with attractive incentives, especially parking space offerings, stand out from others and are pulling tenants from existing stock.
- Asking rents are stabilizing throughout the grades with an exception of Grade B NCBD and Grade C NCBD which saw a decrease of 8.7% and 3.1% Q-o-Q, respectively. As no significant supply is anticipated, the rates are expected to remain stable with minimal change until year end.
- 68% of completed supply is centrally owned supply, which has been constant for two consecutive years. However, five strata title projects are expected in 2023, four more than in 2022. By the end of 2023, strata title supply is forecast to represent 40% of the market. Overall, the country’s COVID19 performance has given landlord’s an increased sense of confidence—we will see how things develop as supply continues to increase.

FIGURE 2: Centrally Owned Office Average Quoting Rent by Grade (2018–Q2 2022)



Source: CBRE Research, Q2 2022

FIGURE 3: Centrally Owned versus Strata Title Office Supply (Q4 2021–Q4 2024F)



Source: CBRE Research, Q2 2022

FIGURES | PHNOM PENH RETAIL | Q2 2022

Brick and mortar stores are still in demand

▲ 443,000+

NLA Supply sq. m.

▲ 68.4%

Occupancy Rate

▶ \$22.0

Prime High Street Monthly Rents
(USD/SQM)

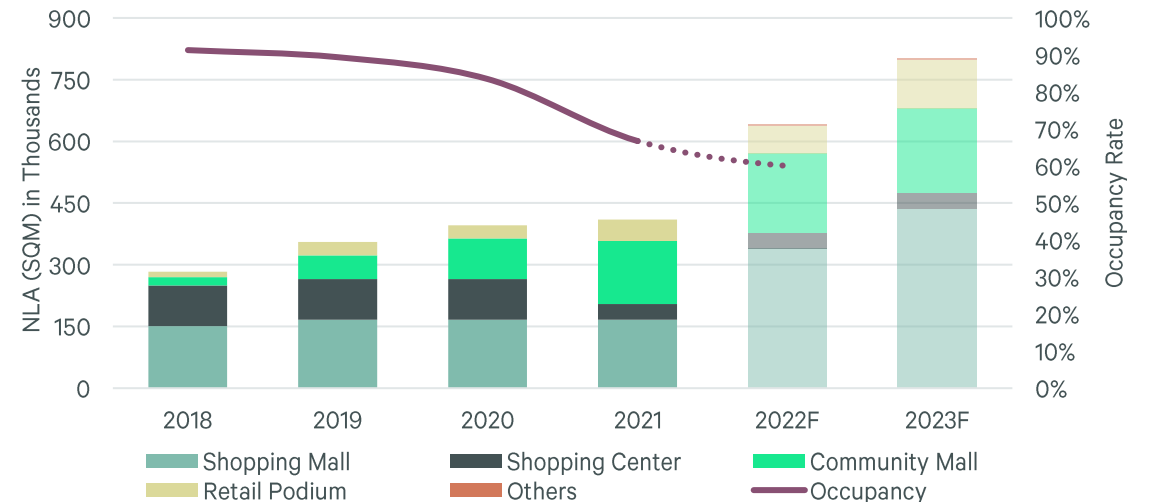
▼ \$26.5

Shopping Mall Monthly Rents
(USD/SQM)

Note: Arrows indicate change from previous quarter.

- In the fall out of the global pandemic, there was a doubt whether physical branch expansions are needed amid the emergence of e-commerce. While there is no definite answer to this, CBRE Cambodia has recorded the number of branch expansions above 40 stores for three consecutive quarters. Of the 46 expansions in the second quarter, 30 were from international brands.
- From the retailers’ perspective, their new branches are still well received by the market and brick-and-mortar stores are still in demand. Standalone retail projects are also increasingly attractive to retailers as it provides better visibility and compliments the flow of e-commerce delivery.

FIGURE 1: Phnom Penh Retail Supply by Type and Occupancy Rate (2018–2023F)

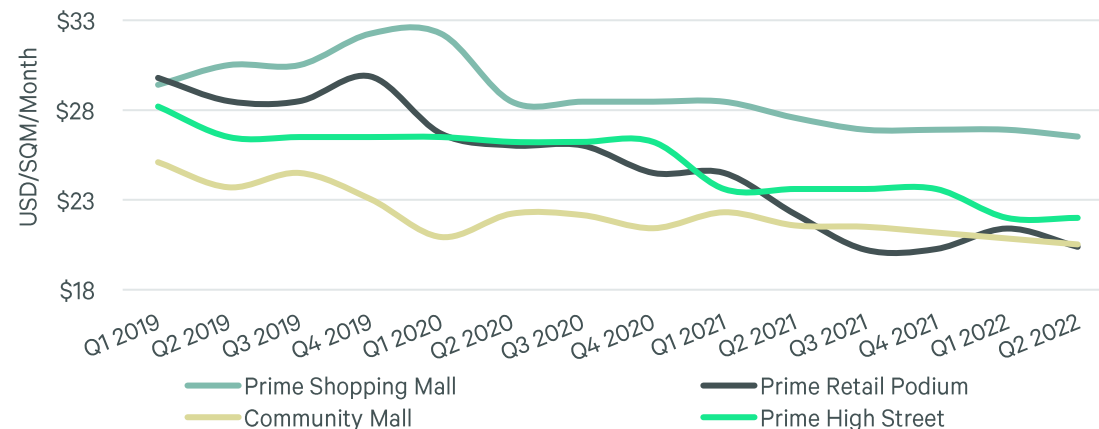


Source: CBRE Research, Q2 2022

Retail

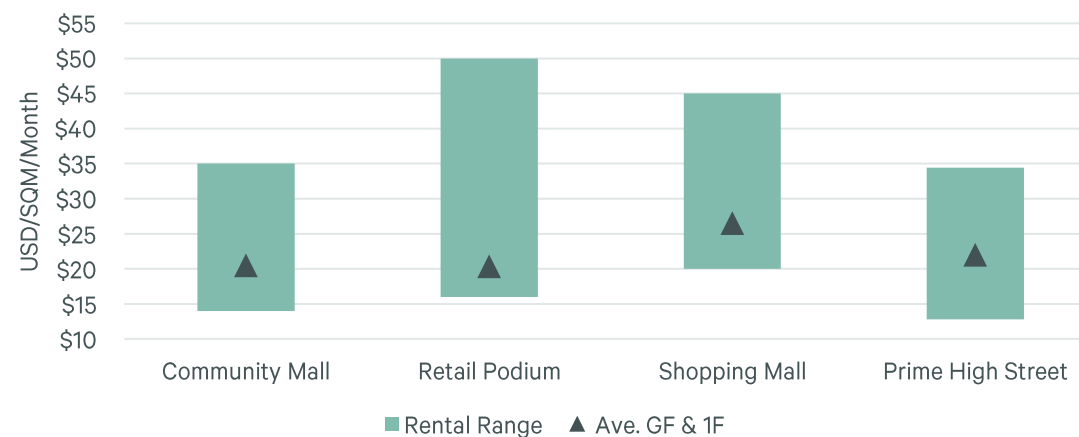
- For the first time in almost one year, retail supply has not witnessed any new launches, meanwhile only one project completed—namely *Chip Mong 598 Mall*, a community mall within the landed property project *Chip Mong 598*.
- The community mall subcategory continues to take lead in supply as it is increasingly incorporated into new landed property developments. The community mall occupancy rate increased noticeably by 5.5% Q-o-Q, bringing the total occupancy rate of the retail sector up by 1.8% comparing to the last quarter.
- Asking rents, on the other hand, contracted with all subcategories' asking rents resettling due to increasing supply—the retail podium subcategory was most affected—reducing 4.8% Q-o-Q as a response to the falling occupancy rate.
- The prime high street and shopping mall subcategories are the least affected with average asking rents of US\$22.0 and US\$26.5 per sq. m., respectively. However, it is noteworthy that the monthly asking rent ceiling for the shopping mall subcategory reduced to US\$45 per sq. m., an 18% reduction Q-o-Q.
- By the end of 2022, the total supply is expected to increase by more than 190,000 square meters of net leasable area. Meanwhile, approximately 170,000 square meters will be contributed by shopping mall categories, doubling NLA supply of 2021.

FIGURE 2: Phnom Penh Retail Average Quoting Rent by Grade (Q2 2022)



Source: CBRE Research, Q2 2022

FIGURE 3: Phnom Penh Retail Average Quoting Rent and Rental Range (Q2 2022)



Source: CBRE Research, Q2 2022

FIGURES | PHNOM PENH CONDOMINIUM | Q2 2022

Expected supply adjusted as deferred projects were resumed

▲ 3,204
 Units Completed

▲ 9.5%
 Q-o-Q Supply

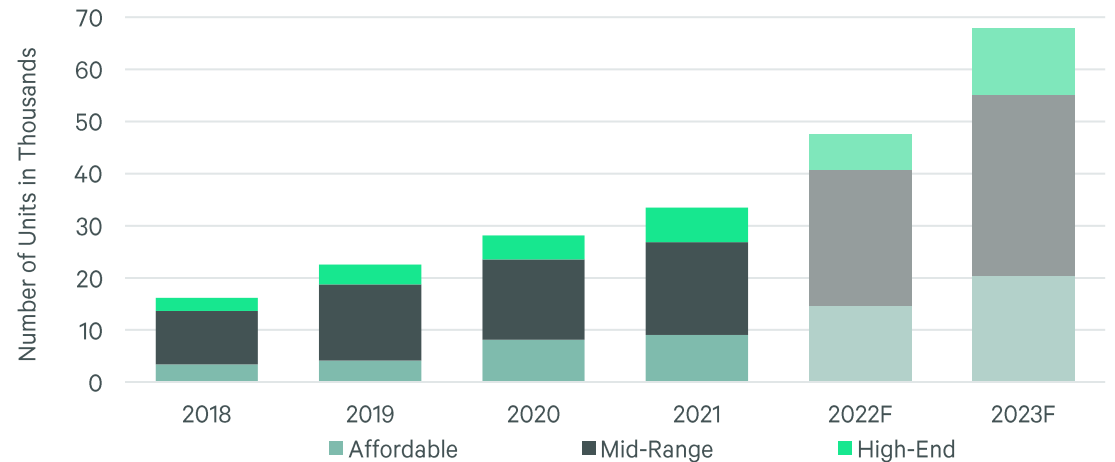
▲ \$2,671
 Avg. High-End Condo Price
 (USD/SQM)

▲ \$10.4
 Prime Condo Monthly Rents
 (USD/SQM)

Note: Arrows indicate change from previous quarter.

- Within the second quarter of 2022, the condominium market welcomed four completions from mid-range and affordable segments. Over 3,000 units were completed and creating a 9.5% Q-o-Q rise.
- Due to the manageable pandemic situation throughout the last quarter, the market welcomed a comeback with one new project being launched, and over 1,200 units were resumed and relaunched after months of being deferred.
- It is noteworthy that the new completions in Phnom Penh made the total expected supply reaches 34% of 2022 anticipated supply.

FIGURE 1: Phnom Penh Condominium Supply (2018–2023F)

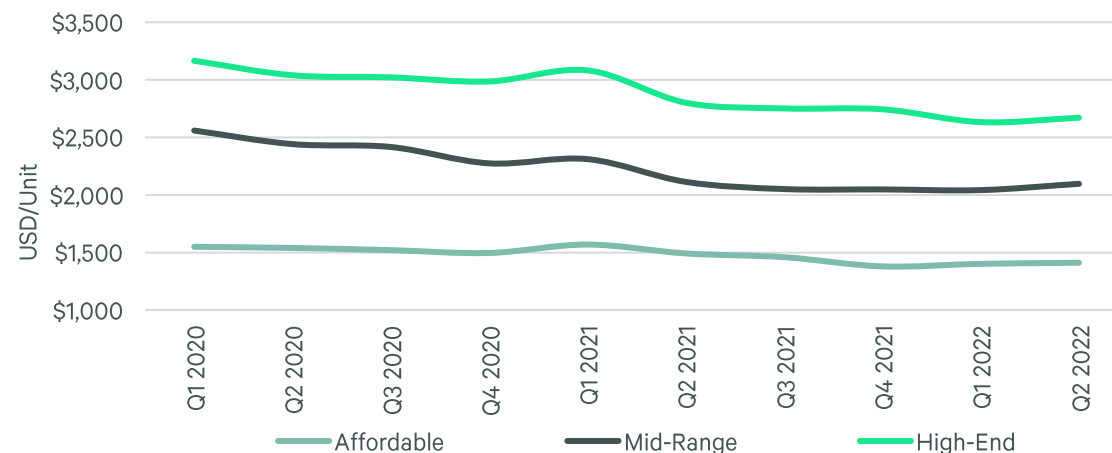


Source: CBRE Research, Q2 2022

Condominium

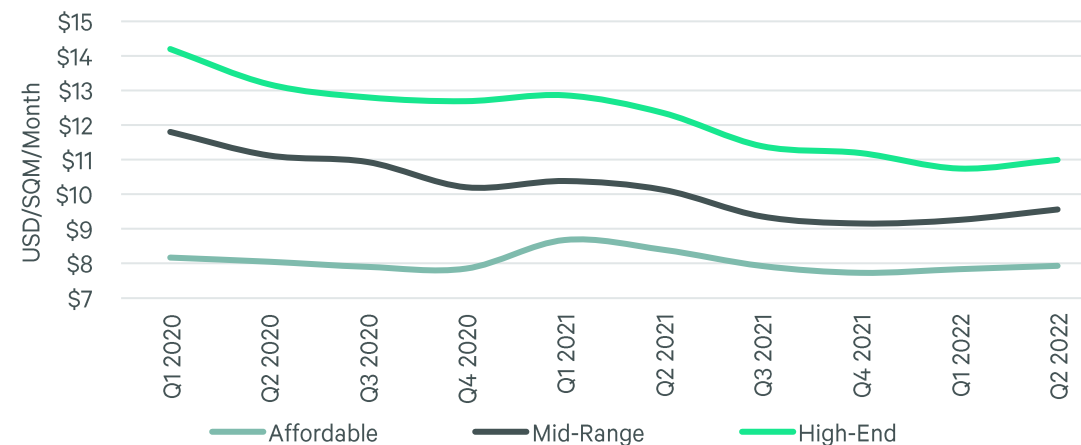
- Sale prices and rents notably increased across all segments where mid-range products grew significantly—the other two segments gradually recovered.
- On average, mid-range’s sale prices were quoted at approximately US\$2,096 per sq. m. and made 2.7% increase Q-o-Q. Meanwhile, high-end and affordable units were quoted between US\$2,671 to US\$1,412, representing 1.4% and 0.7% rise, respectively.
- Quoting rents, on the other hand, grew considerably where mid-range reached 3.3% Q-o-Q rise and high-end at 2.3%. In the meantime, the affordable units were settled at 1.2% Q-o-Q growth. These remarkable changes are understood to be fueled by the slowdown of new supply and the market’s confidence resurging throughout the last quarter.
- The developers remained active, providing competitive prices whereby buyers are required to pay less than 20% down payments to move-in in some projects. The resurgence of confidence will likely be tied to supply of stock, economic stability and the presence of new buyers and occupiers.
- By the end of 2022 and 2023, the total accumulated supply is foreseen to exceed 45,000 units and 65,000 units, respectively, if the situation remains stable. As foreign buyers remain illusive, how this stock will be absorbed is the key question most observers must ask.

FIGURE 2: Average Quoting Condominium Sale Prices (USD/SQM) (Q1 2020–Q2 2022)



Source: CBRE Research, Q2 2022

FIGURE 3: Average Quoting Condominium Rent Prices (USD/SQM/Month) (Q1 2020–Q2 2022)



Source: CBRE Research, Q2 2022

FIGURES | PHNOM PENH SERVICED APARTMENT | Q2 2022

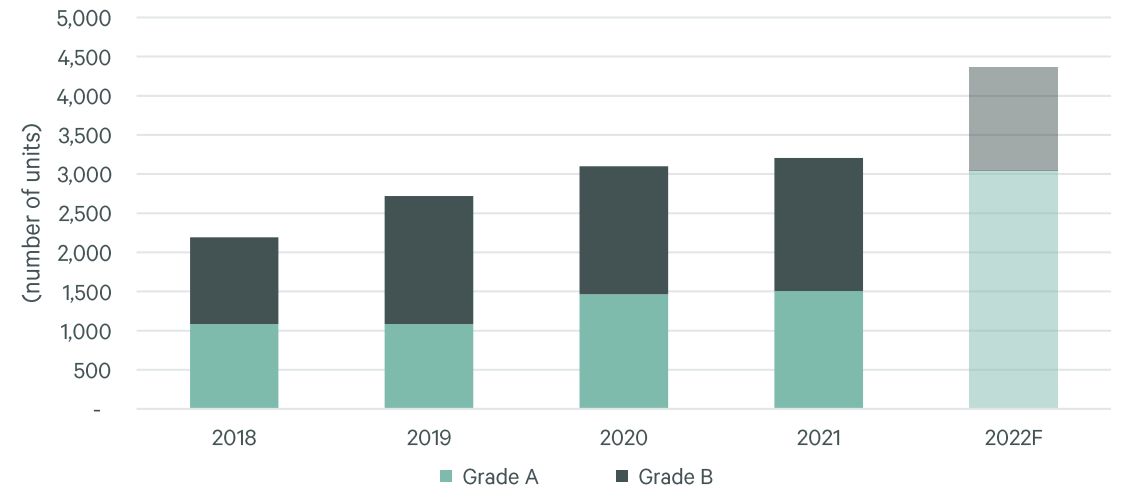
International brands entered for the first time after years of absence



Note: Arrows indicate change from previous quarter.

- Over the first half-year, three projects started operations, introducing 479 units across Phnom Penh. The new supply, namely *Citadines Flatiron Phnom Penh*, *TK Central Serviced Apartment*, and *Jasmine Residence*, were found in three districts including Daun Penh, Toul Kork, and Beoung Keng Kang.
- *Citadines*, the new international brand, is operated under the management of *The Ascott Limited*. It is the first time in years a new supply operated by international operator coming to Phnom Penh serviced apartment market.

FIGURE 1: Phnom Penh Condominium Supply (2018–2023F)



Source: CBRE Research, Q2 2022

Serviced Apartment

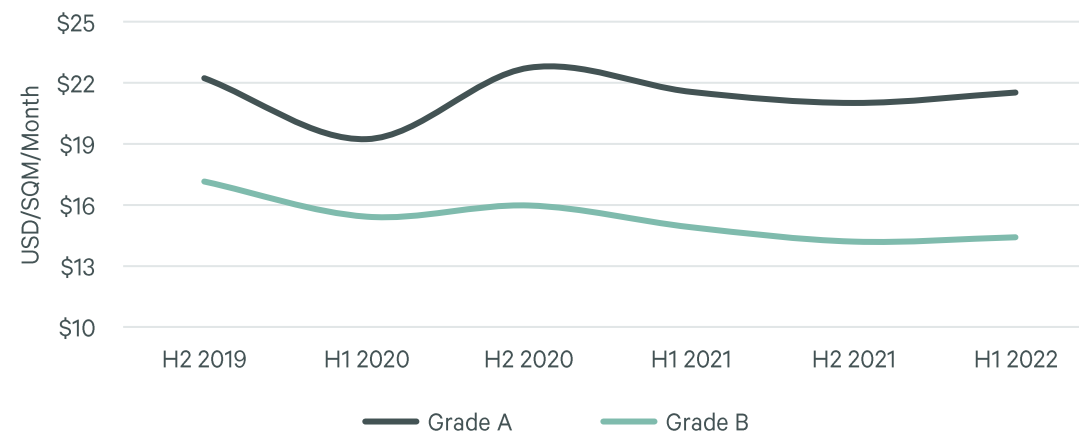
- Following the same trend as the condominium market, the serviced apartment market has seen some initial signs of recovery over the last six months. The return of former tenants, who left during the pandemic, was found to be one of the key elements to push the rental rates’ recovery. However, the overall rates have not yet reached the pre-pandemic level.
- Grade A’s quoting rents ranged between US\$11 to US\$30 per sq. m. indicating a wide disparity depending on landlord, operator, location, unit size, etc. Whilst Grade B properties were set between US\$7 to US\$22.
- Across all districts in Phnom Penh, Grade A, and Grade B’s rents increased by 2.4% and 1.5% H-o-H, respectively. On average, Grade A was set at US\$22 per sq. m. and Grade B stood at US\$14 per sq. m.— this rise is likely a reflection of improving landlord sentiment in the face of Cambodia’s reopening.
- It is worth pointing out that in the following quarters, at least 500 units introduced by international brands are set to enter Phnom Penh’s serviced apartment market. Possibly creating further headwinds for the category.

FIGURE 2: Serviced Apartment Average Rental Rate by Grade (Q2 2022)



Source: CBRE Research, Q2 2022

FIGURE 3: Serviced Apartment Average Rental Rate by Grade (H1 2019–H1 2022)



Source: CBRE Research, Q2 2022

FIGURES | PHNOM PENH LANDED PROPERTY | Q2 2022

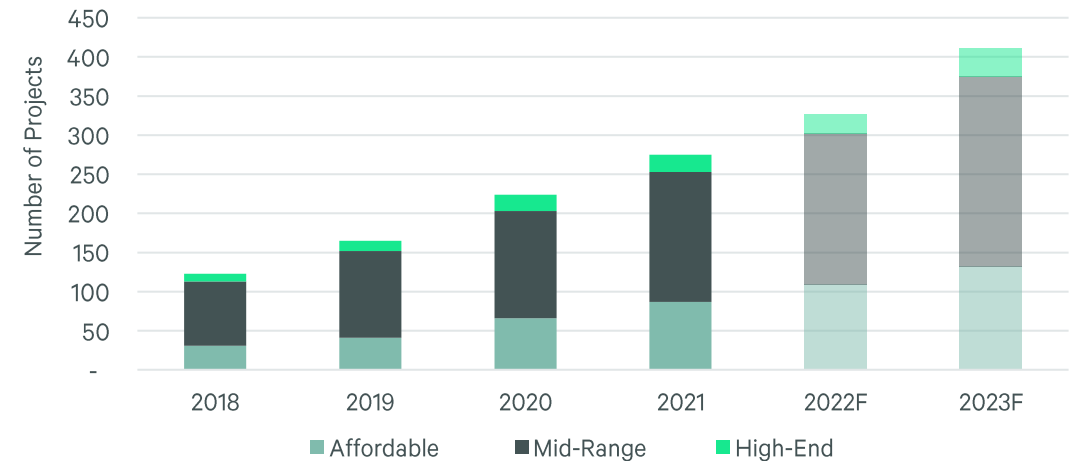
Steady increase in new supply drives competition and price adjustments



Note: Arrows indicate change from previous quarter.

- Within the second quarter of 2022, seven landed property projects completed while 10 others were announced across Phnom Penh. Significantly, none of these new completions and launches come from affordable segment. With more than 1,700 units completed in this quarter, the total expected supply to be completed within 2022 was found to reach 37% of the annual pipeline. The second quarter of 2022 was slower in completions compared to the first quarter.
- Phnom Penh’s cumulative landed property supply is expected to exceed 130,000 units in 2022 and 150,000 units in 2023 across over 400 projects.

FIGURE 1: Phnom Penh Landed Property Supply (2018–2023F)



Source: CBRE Research, Q2 2022

Landed Property

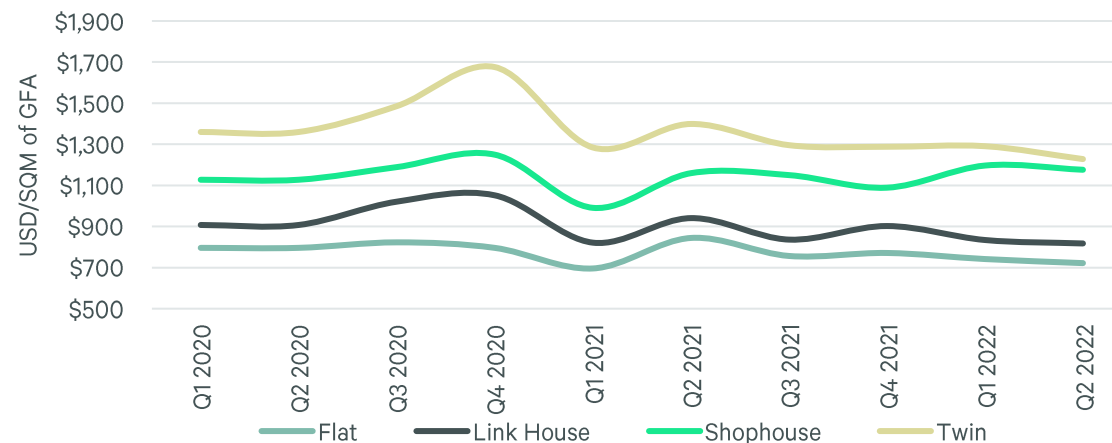
- On average, the attached unit types, including flat house, link house, and shophouse, were quoted at US\$905 per sq. m. of GFA equivalent to a 2.1% Q-o-Q decrease and a 7.8% Y-o-Y drop. Meanwhile, the semi-detached unit types, known as Twin Villa, were on average set at US\$1,228 accounting for a 4.9% Q-o-Q fall.
- On top of adjusting the asking prices and payment terms, developers are increasingly providing competitive offers on the completed units. For instance, furnishings and cars are becoming common incentives.
- In addition, the recent announcement of Trust Law has attracted developers’ interest in engaging with trust scheme to reach oversea buyers’ pool.
- With rapid expansion, market onlookers are beginning to ask whether the landed property market will follow the same growth trend as the condominium segment. What is certain is buyers now have more options than ever, in terms of design, payment terms, amenities, etc., as the market enters a new stage in its maturity.
- Due to the constant growth, the accumulated supply has increased sharply and created intense rivalry across all segments – Phnom Penh’s landed property segment is only set to become increasingly competitive, raising questions around the short-term sustainability of the sector.

FIGURE 2: Phnom Penh Landed Property Quoting Price Range (Q1 2020–Q2 2022)



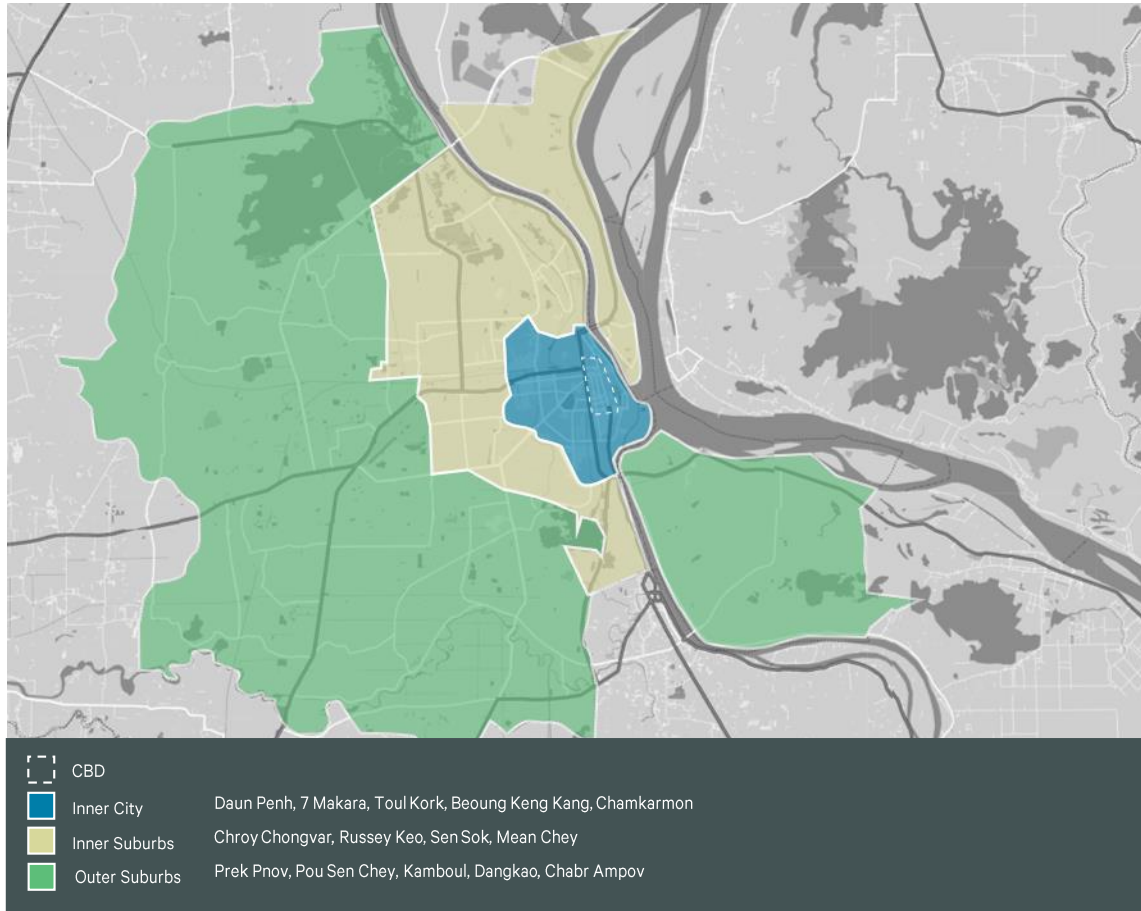
Source: CBRE Research, Q2 2022

FIGURE 3: Phnom Penh Landed Property Quoting Price (Q1 2020–Q2 2022)



Source: CBRE Research, Q2 2022

Market Area Overview



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