

Phnom Penh, Q4 2018

Condominium Rates Hold Steady Amidst Spike In Supply

▲ Average High-end Condominium Price
\$3,260/SQM

▼ Prime Condominium Rent
\$14.2/SQM

▲ Prime Office Rent
\$25.6/SQM

▼ Prime Retail Mall Rent
\$37.1/SQM

*Arrows indicate change from the previous quarter.

HIGHLIGHTS

Eight condominium projects comprising of a total of 2,234 units were completed in Q4 2018, substantially driving-up the total supply by 18.9%. An additional 2,200 units were added to the supply pipeline from 6 projects, primarily within the mid-range segment. Despite the considerable increase in supply over the quarter, average prices and rental rates remained robust.

Both retail and office sectors witnessed delayed completions primarily due to hampered construction progress. Centrally-owned office stock marginally increased over the quarter, with occupancy rates staying strong at around 85.36% across the sector. The office market is beginning to see a surge in Grade B strata-title supply, particularly in decentralized locations.

OVERVIEW

The final quarter of 2018 saw a substantial drop in approved investment into construction and volume of projects approved across the Kingdom, according to the Ministry of Land Management, Urban Planning and Construction.

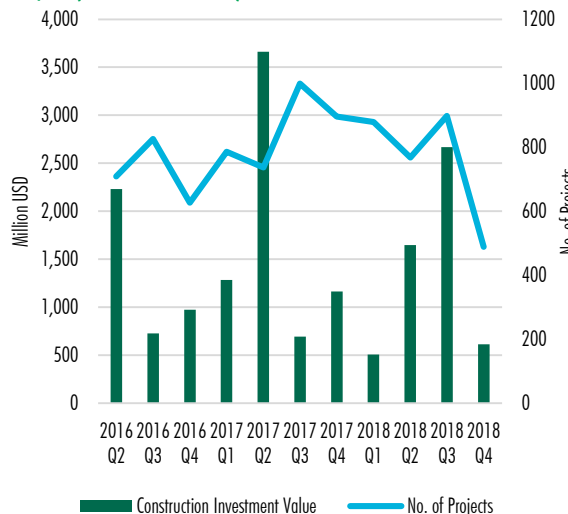
Total approved investment into construction between January and November is estimated to have totaled just over US\$5.2 billion, with October and November achieving a combined total of just US\$408 million. It is projected that in Q4 2018, approximately US\$610 million was invested into construction, a q-o-q drop of over 75%.

Furthermore, the volume of approved projects in the final quarter of the year is estimated to have fallen quite substantially from 898 in Q3 2018 to an estimate of circa 490, according to the latest statistics released by the Ministry of Land Management, Urban Planning and Construction.

Whilst the year is anticipated to have finished rather poorly, fears over the impact of the general election seem not to have affected investor confidence too strongly, with almost US\$6 billion invested into construction and circa 3,400 projects approved over the year.

Q4 2018 saw significant additions to Phnom Penh's real estate stock, particularly in the condominium sector which witnessed 8 project completions. However, this relatively positive performance has been overshadowed by multiple delays in planned project completions, especially from within the commercial sectors.

Figure 1: Approved Investment into Construction, Value and Number of Projects (Q2 2016 – Q4 2018)



Source: Ministry of Land Management, Urban Planning and Construction

SUPPLY

Q4 saw a total of 8 new project completions comprising of circa 2,234 units in the condominium sector, an increase in total supply of 18.9% q-o-q. The highest influx in completed supply was found in the mid-range segment which accounted for over 40% of the total completed stock in the quarter including completions at *East View*, *Sky 31*, and *The View*.

The affordable segment also witnessed a high influx in completed supply, with circa 870 units added to the segment's stock, 78.1% of which was located in Sen Sok District. The affordable segment saw the largest condominium project to be completed in Q4, *Sen Sok Town III*, which contributed 468 units to the total new stock, circa 20% of the total supply to enter the market over the quarter.

The condominium sector also saw 6 new project launches over the quarter totaling approximately 2,200 units. Over half of the stock was launched by R&F Properties, introducing *R&F Glory* (Phase 1) and *R&F City* (Phase 2) comprising of 440 and 792 units, respectively. Again, the mid-range segment dominated the market share, accounting for around 1,232 units of the total launches for the quarter, with new launches seen in Daun Penh, Chroy Changvar and Mean Chey Districts.

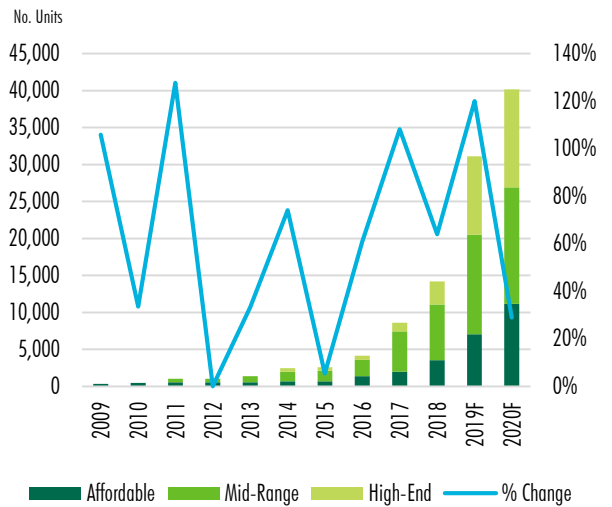
SALES PRICES

Condominium sales prices remained relatively unchanged over the final quarter of 2018, with an average q-o-q upward adjustment of less than 1% across the sector. Average sales prices have varied over the course of 2018, with the high-end segment witnessing a 1.5% upward adjustment, a minor downward correction in mid-range prices, and an 8.4% rise in average affordable prices y-o-y.

CONDOMINIUM RENTS

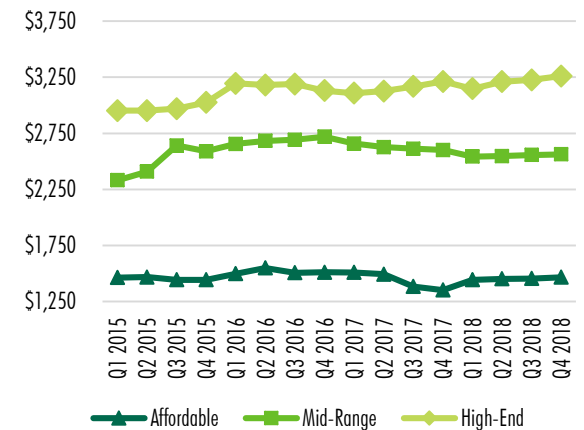
In spite of the large influx in new stock, condominium rental rates saw minimal change over Q4 2018. Rental rates remained stable in the high-end segment at US\$ 14.2/sqm/month and circa US\$ 11.5/sqm/month for mid-range stock, a marginal q-o-q fall of approximately 1% in both segments.

Figure 2: Phnom Penh Condominium Supply by Grade (2009-2020F)



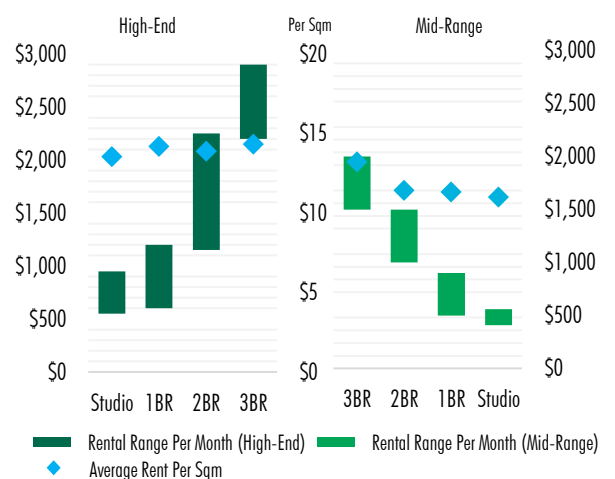
Source: CBRE Research, Q4 2018

Figure 3: Average Price Per Sqm of Phnom Penh Condominiums (Q1 2015 – Q4 2018)



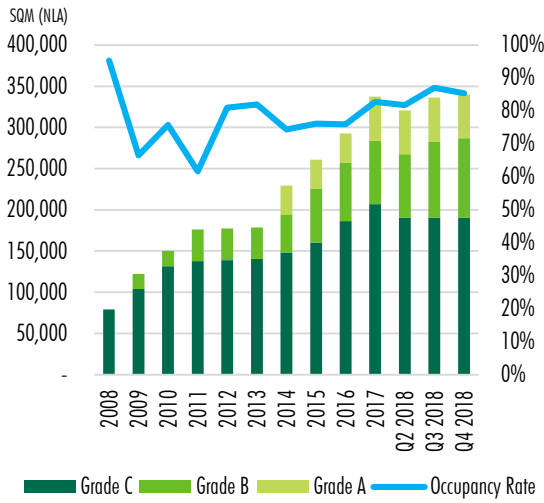
Source: CBRE Research, Q4 2018

Figure 4: Monthly Rents and Average Per Sqm Rents Per Month of Phnom Penh Condominiums (High-End & Mid-Range) (USD)



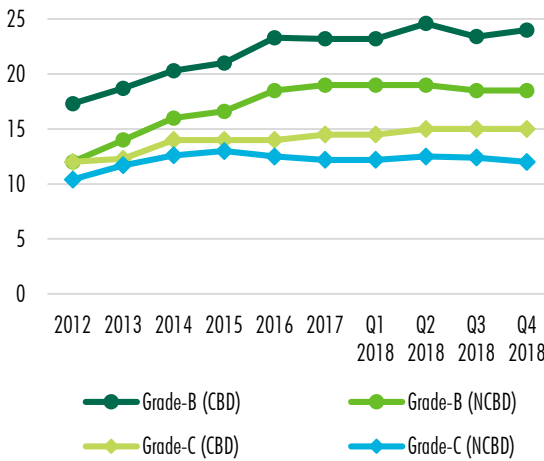
Source: CBRE Research, Q4 2018

Figure 5: Phnom Penh Office Supply by Grade (2008 – Q4 2018)



Source: CBRE Research, Q4 2018

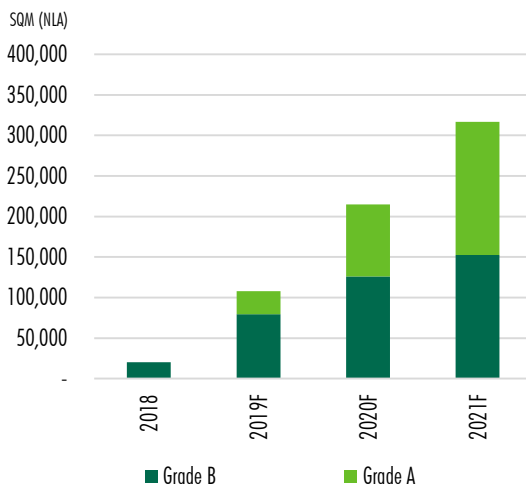
Figure 6: Average Quoted Phnom Penh Office Rental Rates (USD/SQM/Month) (2012 – Q4 2018)



*Exclusive of service charge

Source: CBRE Research, Q4 2018

Figure 7: Current and Future Strata-Title Office Supply (2018 - 2021)



Source: CBRE Research, Q4 2018

SUPPLY

Q4 2018 saw 3,692 sqm of centrally-owned net leasable area complete in the office sector, a marginal growth of 1.1% in stock q-o-q. The new addition of *E.SUN Tower* to the centrally-owned stock increased Grade B total supply by 3.9% when compared to Q3 2018.

Occupancy rates within the sector remained relatively consistent throughout the quarter, finishing the year at approximately 85.36%. Whilst the office sector performed reasonably well over the quarter, with Grade A and Grade C segments achieving a positive net absorption rate, the introduction of further Grade B supply to the completed centrally-owned stock reduced the overall occupancy rate by 1% q-o-q.

RENTS

Office rental rates remained relatively stable throughout the quarter, with the Grade B segment witnessing a minor positive adjustment. This upward adjustment in Grade B rents is primarily due to the strong performance of *Keystone* combined with the consistency of older stock across the sector.

STRATA-TITLE SUPPLY

The completion of *East Commercial Center* to the strata-title supply boosted the total strata-title stock to circa 20,264 sqm. *East Commercial Center* sits alongside *TK Royal One* which was introduced to the market earlier in the year.

Both *Diamond Twin Tower* and *Star City* were to be delivered in Q4 2018 but have seen a delay, increasing the anticipated forthcoming strata-title stock in Q1 2019 by circa 36,207 sqm. The delay in completions of awaited commercial projects was a common theme in Q4 2018 and has been primarily attributed to hindered construction progress, as multiple projects across the city race to complete.

SUPPLY

Q4 2018 saw no new supply enter the retail sector with 4 anticipated projects witnessing unforeseen delays. *WB Arena*, *MidTOWN Mall*, and *Downtown 93*, which were due to add around 17,861 sqm of net leasable area to the community mall segment within the quarter, are now projected to complete in 2019. Furthermore, the delayed completion of *The Olympia Mall* has increased the anticipated shopping mall stock set to enter the market in early 2019.

RENTS

Average asking rental rates within the retail sector saw a slight downward adjustment in three of the retail segments in Q4 2018. Community mall average asking rates decreased to circa US\$ 26.8/sqm/month, a likely result of anticipated supply to enter the market in the near future.

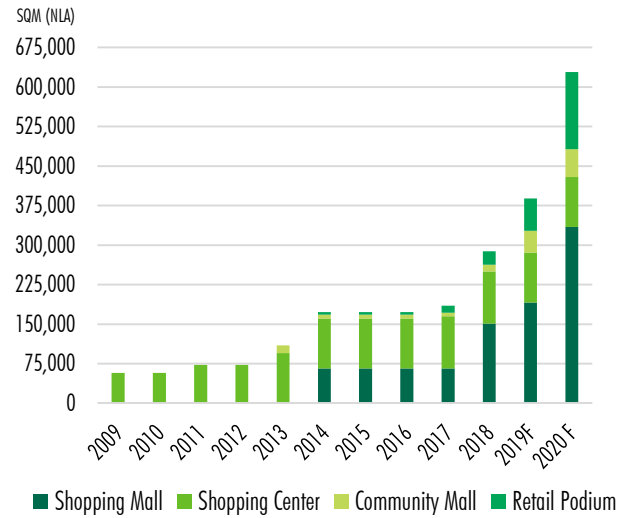
VACANCY

Vacancy rates within the retail sector followed a similar path to preceding quarters of 2018, with a slight upward adjustment in the shopping mall segment. This slight increase is attributed to the marginal growth in vacancy at both *Sovanna Shopping Center* and *Aeon Mall Phnom Penh*.

Over the course of 2018, vacancy rates across the sector have fluctuated between 8-10%, substantially lower than the average rate of circa 27% seen throughout 2017. The considerable fall in vacancy rates in 2018 are primarily a result of the completion of *AEON MALL Sen Sok City* in Q2 2018, which increased overall stock by circa 85,000 sqm of net leasable area and is currently fully occupied.

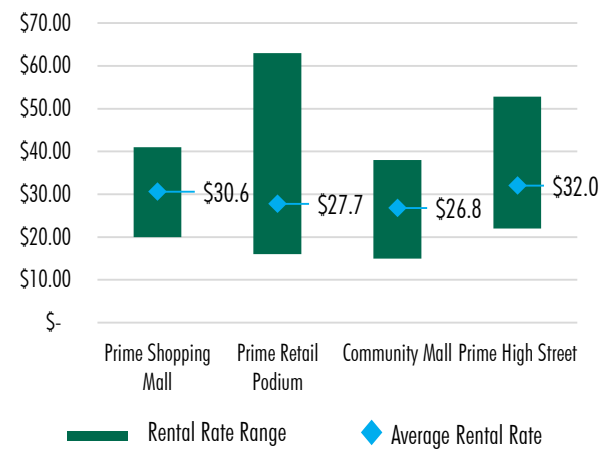
It is forecast that the vacancy rates witnessed over the preceding quarters will increase over the course of 2019 due to the extensive influx in retail supply expected.

Figure 8: Phnom Penh Retail Supply (2009 – 2020F)



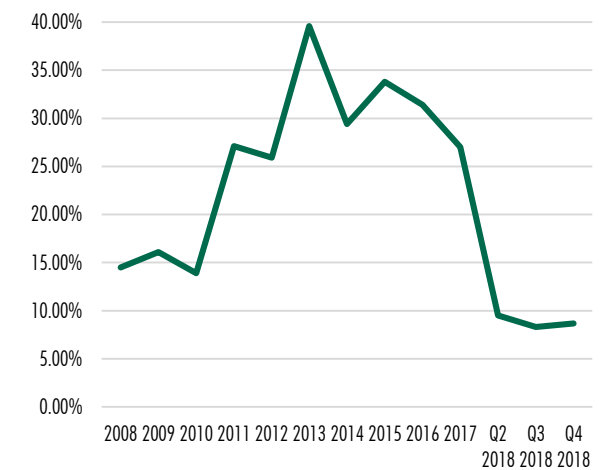
Source: CBRE Research, Q4 2018

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



Source: CBRE Research, Q4 2018

Figure 10: Vacancy Rate of Phnom Penh Retail Supply (2008 – Q4 2018)



Source: CBRE Research, Q4 2018

ECONOMIC OUTLOOK

The World Bank's most recent economic outlook projected that Cambodia completed 2018 with a real GDP growth rate of 7.1%, one of the highest in the region. This comparatively high growth rate is set to continue throughout 2019, with preliminary estimates set at 6.8% for the year. Foreign Direct Investment (FDI) was estimated to have averaged approximately 10.9% by the end of Q4 2018. Initial estimates by The World Bank suggest that this rate of FDI will remain steady throughout 2019 at circa 10.6%.

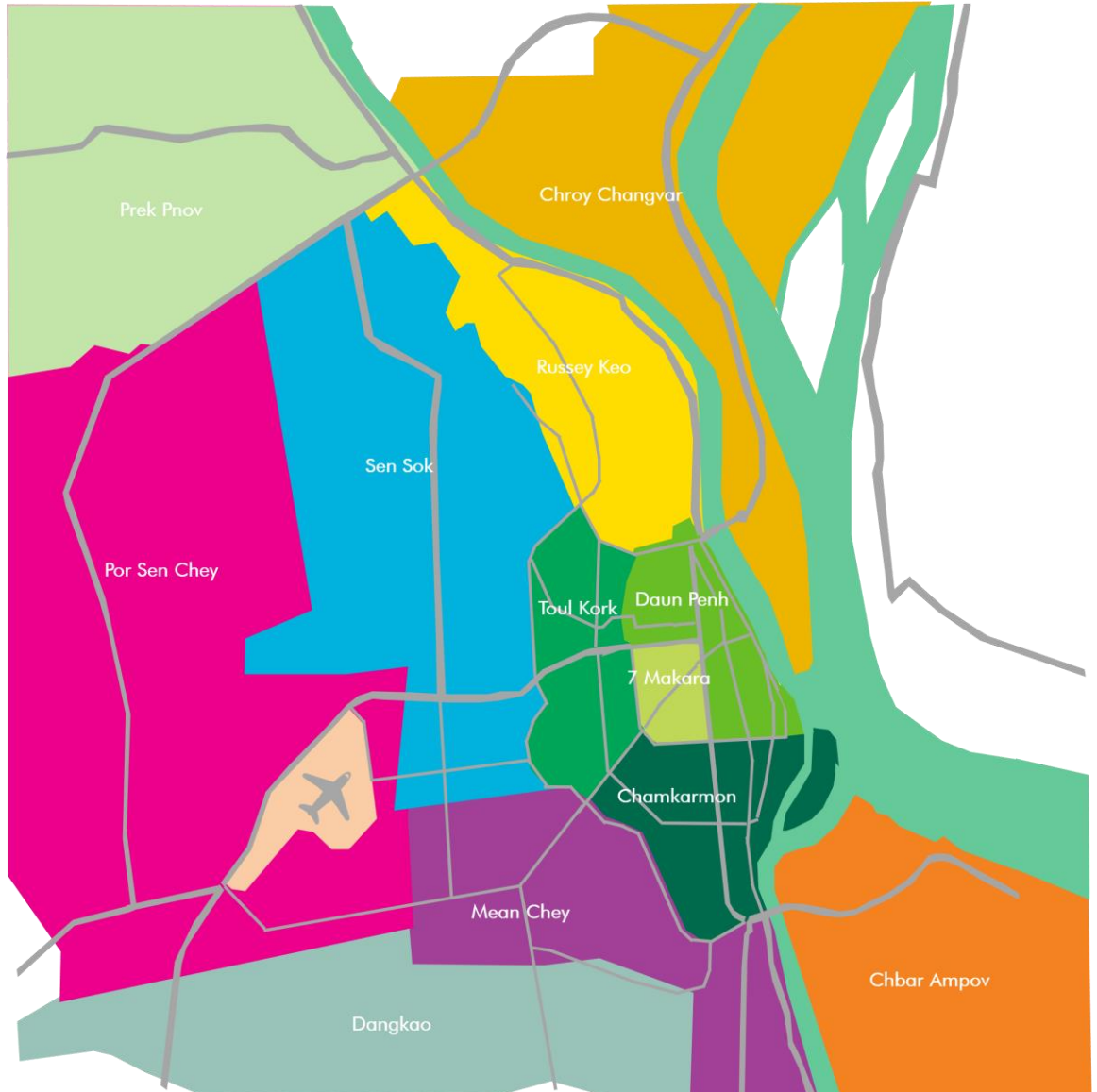
MARKET OUTLOOK SUMMARY 2019

Phnom Penh's property market is poised to witness substantial changes throughout 2019, particularly within the condominium and retail sectors. One of the key takeaways of Q4 2018 has been the delayed delivery of planned stock in the condominium, retail and office sectors due to sluggish construction progress in certain projects and lack of take-up in the pre-leasing stage. The forecast consequence of this is an increased pipeline of new supply set to be delivered in the first half of 2019, that place downward pressure on rental and sales rates whilst boosting vacancy across the market.

The upward trend in condominium stock completions in 2018 is set to continue into 2019, particularly in the first and second quarters due to the delay in completions in Q4 2018. Initial forecasts estimate that a y-o-y increase in condominium stock of almost 100% will occur in the affordable segment by the end of 2019, increasing the total affordable supply to circa 7,057 units from 3,530 units at present. Large increases in supply are also expected in the high-end segment, which is forecast to total around 10,611 units by the end of 2019, a considerable increase of 243% when compared to the current supply of circa 3,093. Finally, the mid-range segment is also set to witness a large influx in supply which shall total approximately 13,444 units, a y-o-y upward adjustment in total segment stock of approximately 78%. Whilst this inflow of condominium supply is a sign of strong market growth, fears of over-saturation within the condominium sector, predominantly in the mid and high-end segments persist. To date, this high level of new supply has not had a noticeable effect on sales and rental rates within the sector. However, the continued injection of stock throughout 2019 may catalyze market adjustments, above all in the mid and high-end segments.

The most notable trend forecast for 2019 in the office sector is the rise in strata-title supply within the Phnom Penh market. Q4 2018 saw the addition of *East Commercial Centre* to the office market, increasing the strata-title supply to 20,264 sqm. 2019 is forecast to see a significant rise in both Grade A and Grade B strata-title supply, with projects including *Diamond Twin Tower* and *Star City*, adding approximately 36,207 sqm to the Grade B strata-title supply, an upward adjustment of 78.6%. Furthermore, the expected completion of *The Gateway* is forecast to introduce the first Grade A strata-title office development to the market, comprising of circa 28,565 sqm of net leasable area.

Similarly to 2018, the retail sector in 2019 is expected to see another sharp influx in supply primarily driven by the shopping mall segment. *Phnom Penh Megamall* is expected to add roughly 40,000 sqm of net leasable area to the retail sector, increasing total segment stock by 26.5%. Furthermore, it is forecast that a rise in community mall supply entering the market over the coming year including projects such as *MiDTOWN Mall*, *Downtown 93*, *Noro Mall*, *WB Arena* and *The Park*, will drive-up community mall total supply by approximately 228%. Subsequently, the overall vacancy rate of retail stock, much like the office sector, is forecast to increase considerably over 2019 as the market will take some time to absorb new stock.



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