

Phnom Penh, Q1 2020

Covid-19 Troubles Make Debut, Retail Appears As Most Exposed Sector

▼ Average High-end Condominium Price
\$ 3,167/SQM

▼ Prime Condominium Rent
\$ 14.21/SQM

▶ Prime Office Rent
\$ 25.62/SQM

▼ Prime Retail Mall Rent
\$ 37.58/SQM

**Arrows indicate change from the previous quarter.*

HIGHLIGHTS

- The condominium sector saw the completion of 2,843 units and a continuation of developer’s confidence with 8 new condominium projects launched, adding 4,521 units to the pipeline.
- Phnom Penh centrally-owned offices witnessed no new completions or launches during the first quarter, however one development launched strata-titled sales.
- Overall footfall and sales in retail destinations plummeted due to the virus concerns. Consequently, retail leasing activity slowed, as many retailers cautioned against committing to expansion or relocation.
- Quoted rental rates in community malls and prime retail podiums fell by 9.2% and 10.5% q-o-q, respectively
- Landed Property saw little sign of a slowdown, driven by strong local demand.

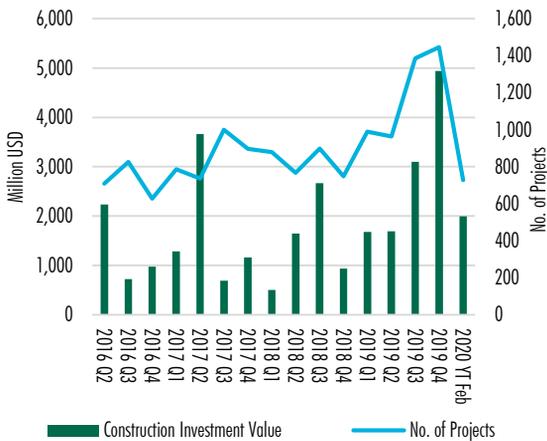
OVERVIEW

Phnom Penh’s real estate market was initially indicating a positive outlook for the year of 2020, however, the unexpected and high pervasive impact of the ongoing coronavirus outbreak, later known as ‘Covid-19’. The virus started to spread first in China and then to more than 200 countries and territories. As the pandemic has escalated, its socio and economic effects have started to impact Cambodia’s real estate sector.

First detected in Cambodia in January 2020, by the end of March the virus had escalated to 109 cases across the country, according to figures from the Ministry of Health. Government, business and personal measures have been enacted in order to contain the spread, including the closure of schools and entertainment businesses, widespread working-from-home and social-distancing. Over the course of Q1, these sudden changes have impacted the real estate market, with some already displaying signs of adjustment.

According to the Ministry of Land Management, Urban Planning and Construction, the first two months of 2020 maintained strong growth in approved investment into construction, with the total value of approvals reaching almost US\$2 billion across 728 public and private projects, indicating a growth of 47% compared to the same period in 2019. This is likely to have slowed considerably in March 2020 as international investors are stymied by the ongoing issues caused by the virus, as well as its fallout on to the finance and banking industries, as well as the global, regional and local economy.

Figure 1: Approved Investment into Construction, Value and Number of Projects (Q1 2017 – Feb 2020)



Source: Ministry of Land Management, Urban Planning and Construction

SUPPLY

Q1 2020 saw the addition of 2,843 new units to the total condominium supply following the completion of five projects. As a result, total supply across the condominium market increased by almost 16% q-o-q to a total of circa 20,851 units. Circa 45.6% of these new completions were located outside the city center.

53.5% of this new supply was graded in the high-end segment, whilst 35.7% and 10.8% positioned in the mid-range and affordable segment, respectively. Daun Penh district saw the largest overall share of newly completed supply at 43.5%, but the completed projects were widely dispersed, with each located in a different district.

The first quarter saw a continuation of the resurgence in developer confidence with 8 new condominium project launched, an additional 4,521 units to the supply pipeline. Most new launches were located in secondary districts, with Sen Sok continuing to lead the way with a share of 48.1%. *Phnom Penh Galaxy Garden*, comprising of 1,088 units, was the largest of the projects launched amounting to 24% of total additions to the pipeline supply for Q1.

SALE PRICES

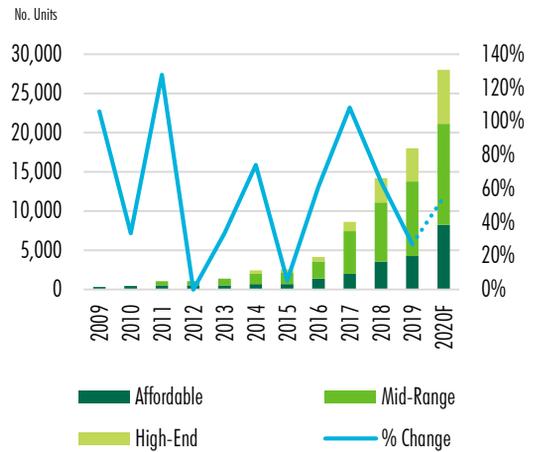
During Q1 2020, the market continues to see a downward correction of sale prices in the mid-range and high-end condominium segments. While the mid-range sale price weakened by 1.4%, the high-end sector adjusted downwards by just 0.5%. Meanwhile, the affordable segment witnessed a further uplift of 0.3%, leading average sale prices in this segment to US\$1,549 per square meter.

CONDOMINIUM RENTS

Over the course of Q1, rental values stood relatively stable at approximately US\$14.2/sqm for high-end and US\$11.8/sqm for mid-range supply, a q-o-q downward adjustment of 0.4% and 0.6% respectively, in part due to the substantial completions witnessed in Q1.

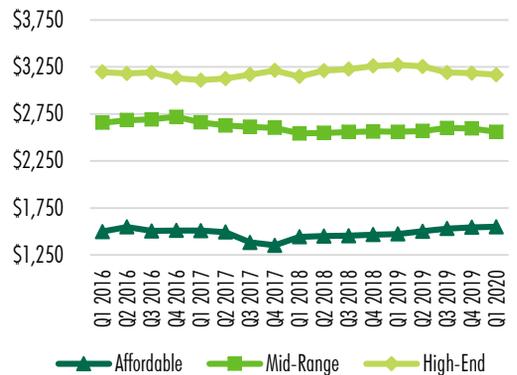
It is worth noting that the impact of the Covid-19 pandemic on the confidence of the condominium sector appears to be at an early stage. The effects could begin to be felt more acutely later in Q2 2020 if the unease around the outbreak persists, construction delays become unavoidable or developer's debt burdens become unsustainable.

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



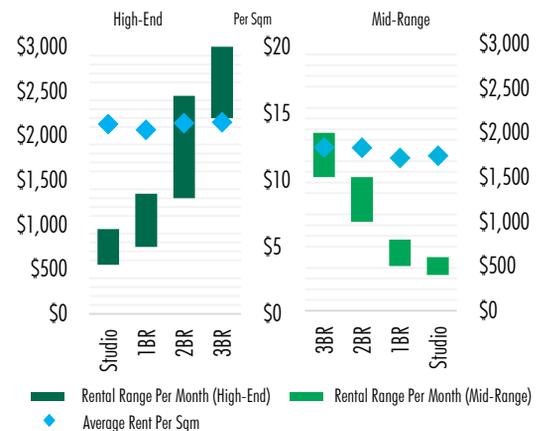
Source: CBRE Research, Q1 2020

Figure 3: Average Price Per SQM of Phnom Penh Condominiums (Q1 2016 – Q1 2020)



Source: CBRE Research, Q1 2020

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



Source: CBRE Research, Q1 2020

Figure 5: Phnom Penh Centrally-owned Office Supply by Grade and Average Percentage Occupancy Rate (2009 – 2020F)

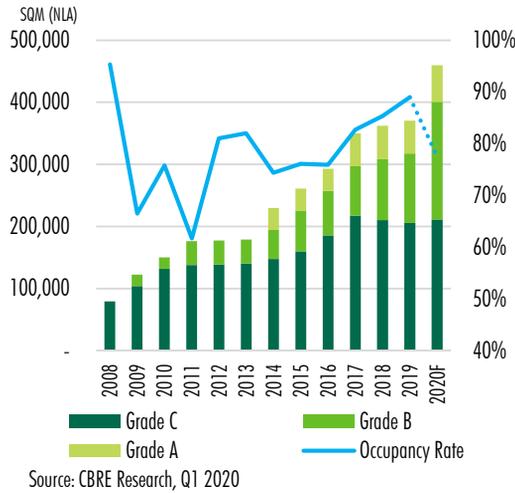


Figure 6: Phnom Penh Office Average Quoting Rental Rates (USD/SQM/Month) (2012 – Q1 2020)*

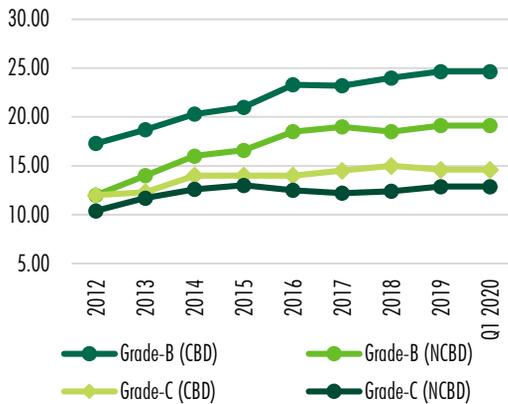
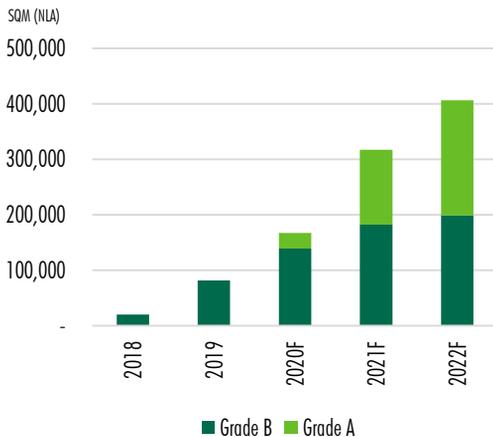


Figure 7: Strata-Title Office Supply (2018 – 2022F)



SUPPLY & OCCUPANCY

Phnom Penh centrally-owned office witnessed no new completions or launches during the first quarter of 2020. During the course of 2020, the market is forecast to witness a net increase in centrally-owned stock of over 89,000 sqm, the majority of which is segmented as Grade B and located in outside the CBD.

The average occupancy rate saw a downward adjustment of less than 1% q-o-q. Overall, the demand in the Q1 remained robust with a number of inquiries present across the market.

Nevertheless, CBRE Cambodia anticipate that the occupancy rate will continue to trend downwards at an increasingly rapid rate over the course of 2020, slowed somewhat by delays to project completions. Take-up is expected to be back-loaded to the final quarter of 2020 due to the ongoing period of uncertainty caused by the pandemic, and its subsequent impact on business confidence.

RENTS

Despite initial upward movements on rents in January, quoting rents flatlined for all office segments across the quarter. Competition for tenants has intensified somewhat and landlords have increased their ability to negotiate, or offered some short-term discounts in order to attract occupiers. The trend towards a widening delta between quoting and achieved rent is likely to persist into the third quarter, and this will likely bring to bear widespread pressure on landlords to reduce their quoting rents in all but the top tier of the market.

STRATA-TITLE SUPPLY

Although no new strata-title office building completed in Q1 2020, one project commenced sales in the market. The launch of *Central Capital Tower*, located in Toul Kork District, introduced circa 24,800 sqm to the strata-title supply pipeline. Additionally, an influx of approximately 86,000 sqm of new supply is forecast to join the strata-title market by the end of 2020. Rapid supply increases of strata-title stock alongside increasing vacancy in the centrally-owned segment will increase pressure on rents over the medium term.

SUPPLY

Total completed retail supply increased marginally during the first quarter of 2020 following the soft launches of *Samai Square* and *TL Sky Mall*. Both projects added supply to the community mall segment and grew the completed retail stock by 6,903 square metres over Q1, a q-o-q growth, an uplift of total supply equivalent to 2.1%. Consequently, the community mall segment supply grew by 16%.

A further 101,477 square metres of new retail supply is forecast to complete over the course of 2020. However, a proportion of this future stock could face delays in hand-over, primarily caused by supply chain issue in the construction sector and the reduction in expansion activity by retailers; both trends have their routes in the escalation of the Covid-19 pandemic and its subsequent impact on footfall and consumer confidence in all but a few retail sub-categories.

RENTS

Starting in mid-February, the footfall in Phnom Penh’s retail centers saw a sharp drop, predicated on the spread of Covid-19. The fall in consumer traffic has resulted in a substantial decrease in retail sales, which has knocked on to the expansion plans of stores and subsequently to retail rentals. Notably, the quoted rental rates in the community malls weakened by 9.2% and prime retail podiums fell by 10.5%, both of which represented the sharpest reductions in more than 4 years.

Trends witnessed on the back of the current market condition will likely accelerate the pace upon which retailers will adopt an omni-channel presence and could promote the use of turn-over share rental models, which have proven popular in some parts of the market.

VACANCY

Overall vacancy rates within the retail market fell slightly to 10.1% across all retail formats, a 0.5% reduction q-o-q. However, the rate is expected to pick up in the second and third quarter of the year, where-after consumer and retailer confidence are expected to recover.

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



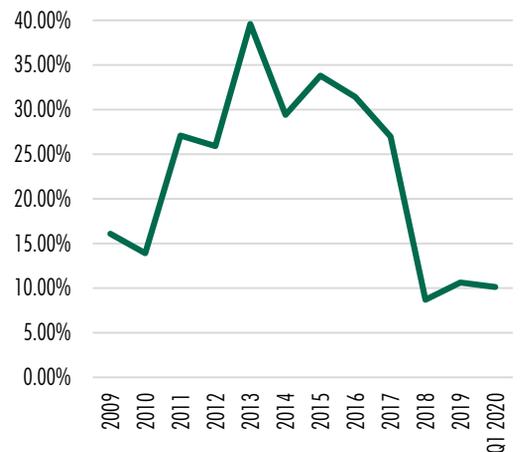
Source: CBRE Research, Q1 2020

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



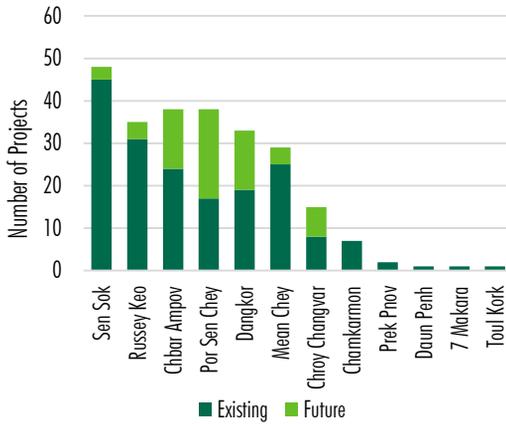
* Prime quoting rents for ground and 1st floor space, exclusive of service charge
Source: CBRE Research, Q1 2020

Figure 10: Vacancy Rate of Phnom Penh Retail Supply (2009 – Q1 2020)



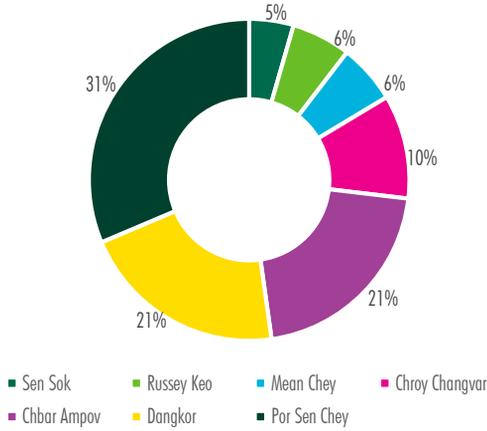
Source: CBRE Research, Q1 2020

Figure 11: Existing and Future Landed Property Projects By District



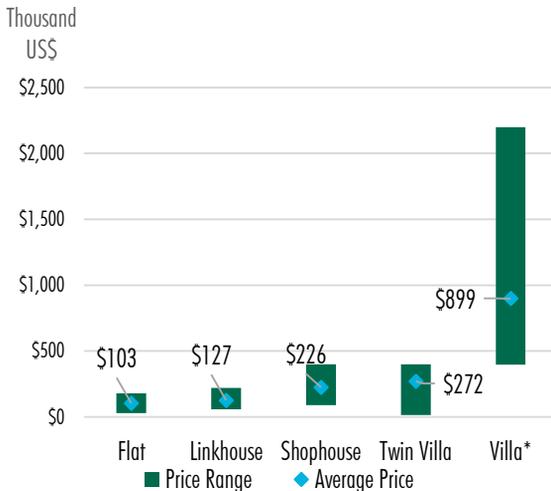
Source: CBRE Research, Q1 2020

Figure 12: Phnom Penh Landed Property Future Supply By District



Source: CBRE Research, Q1 2020

Figure 13: Quoted Sale Prices For Landed Property by Unit Type (USD)



* Villa includes Single Villas, Prince Villas and Queen Villas.
Source: CBRE Research, Q1 2020

SUPPLY

During the six-month period of Q4 2019 – Q1 2020, 3 landed property projects completed and handed over. Located in Mean Chey and Chbar Ampov districts, the completions brought total projects numbers in each district to 25 and 24, respectively.

Despite the recent disruption from the headwinds including the partial withdrawal of EBA preferential trade arrangements with the EU, the Covid-19 outbreak, and external geo-political and economic uncertainty, Borey developers' confidence remains strong, signaled by the 14 newly launched projects witnessed during the past 6 months. Six of these new launches are located in Por Sen Chey district, currently the leading destination of future affordable boreys.

Most recent launches, conducted amidst concerns over the Covid-19 outbreak, were seen from the key local developers. Those includes 3 new projects by Borey Peng Huoth Group, 1 by Chip Mong Land, and 1 by Borey Chea Ry.

SALE PRICES

Quoting sale prices of landed property units showed no sign of slowing down in the past 6 months. Driven by strong local demand, the average quoting prices accelerated across all unit types.

Compared to Q3 2019, average sale prices of flat houses and twin villas during Q1 saw moderate increases of 2.1% and 2.2%, respectively, while linkhouses saw quoting prices uplift 2.9%.

More notable increases were seen in the shophouse and villa segments, where price growth was recorded at 3.9% and 4.3%, respectively.

CBRE Cambodia anticipate that Borey sale prices will remain robust during the next 6 months, driven by their local status as a 'safe-haven' for capital. In a less positive scenario, the market could start seeing price corrections fueled by household cash-flow distress and likely to be contained to the secondary market, at least initially.

STAY INFORMED STAY AHEAD

In a time of uncertainty, access to timely, accurate insights is more critical than ever in ensuring the right decisions are made.



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