

## Phnom Penh, Q3 2020

# Signs Of Activity Returning, But Recovery Remains Fragile.

▼ Average High-End Condominium Price  
**\$ 3,010/SQM**

▼ Prime Condominium Rent  
**\$ 12.80/SQM**

▼ Prime Office Rent  
**\$ 24.30/SQM**

▶ Prime Retail Mall Rent  
**\$ 36.95/SQM**

*\*Arrows indicate change from the previous quarter.*

### HIGHLIGHTS

Revised GDP growth forecasts indicate the Cambodian economy is doing better than initially expected. Predictions estimate that 2021 GDP growth will offset the deficit of -2 to -4% expected in 2020.

Over a nine-month period from Q1 2020 to Q3 2020, eighteen landed property projects were launched, equivalent to some 7,500 units.

Both the office and retail sectors experienced further downwards pressure on occupancy. The retail sector was mostly stable, however, the office sector witnessed rental rate corrections across 3 subsectors.

Over Q3 2020, landlords have entertained more discussions related to incentives across all commercial and residential sectors, as well as markedly increased spending in an attempt to capture more local buyers.

### OVERVIEW

As we move through the second half of an unprecedented year, the impacts of the COVID-19 pandemic on Cambodia's real estate markets are varied. In general, during Q3 2020, corrections in rental rates and occupancy level have been slighter than initially anticipated.

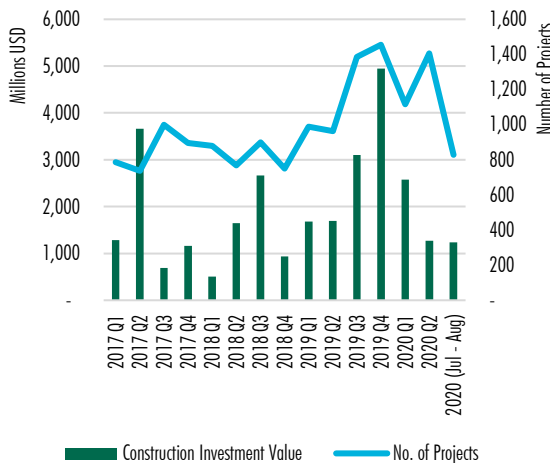
Compared to Q2 2020, rental and sale transactions have increased, supported by many landlords actively considering broader incentive packages. However, both sectors remain subdued compared to the levels witnessed over the same period in 2019.

Both the ADB and IMF have revised their 2020 GDP growth forecasts for Cambodia upwards as of September 2020, forecasting -4.0% and -2.0% respectively. The Cambodian Ministry of Economy and Finance has also revised their GDP growth forecast for 2020 and 2021, estimating -1.9% and 3.5% respectively. Approved investment into construction has seen an increase in the number of approvals y-o-y, although the value of approved projects has reduced compared to 2019.

Cambodia has detected 280 cases of Covid-19 across the country, with 275 recoveries and 0 deaths, according to figures from the Ministry of Health as of 05<sup>th</sup> October 2020. Phnom Penh has also benefitted from a lack of lockdown measures during the quarter, which reflected in positive footfall trends to retail and leisure establishments.

Across the region travel restrictions have reduced somewhat, which bodes well moving into the fourth quarter of the year. The announcement of the implementation of the Capital Gains Tax laws starting from 01<sup>st</sup> January 2021, is expected to bring a moderate uplift in transactional activity to the final quarter of the year.

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



Source: Ministry of Land Management, Urban Planning and Construction

**SUPPLY**

Over the course of Q3, the total supply of condominiums across Phnom Penh saw an increase of 3.97%, comprised solely of the completion of Urban Village Phase 1, which increased supply within the Affordable segment by 15.67%.

No new projects were launched during Q3, but 3 projects introduced new phases to the supply pipeline, signifying that developers familiar with Phnom Penh remain optimistic about the near-term performance of the sector.

It is anticipated that Q4 will see 4 additional completions, consisting of approximately 2,600 units. However, construction delays persist in the sector, with six projects now delaying their completion into 2021.

**SALE PRICES**

Average asking prices across all segments continued to face downward pressure in Q3. The Mid-Range sector adjusted downwards the furthest followed by the Affordable and then High-End at, 1.39%, 1.17% and 1.02%, respectively.

Developers remain active in offering discounts and promotions on selected units within their projects in order to maintain sales velocity. Many developers have pivoted towards a focus on local buyers and it is this trend that has predicated price reductions as developers compete for sales.

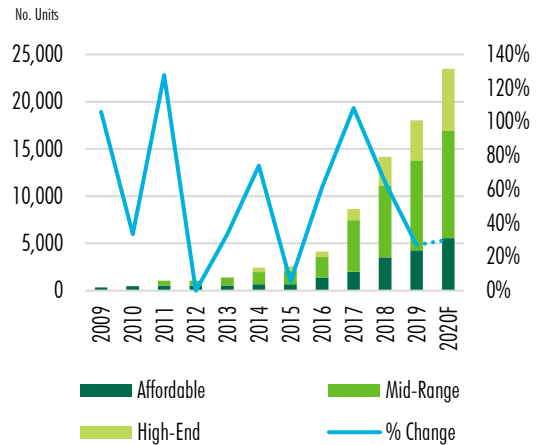
**CONDOMINIUM RENTS**

During the third quarter of 2020, condominium rents also witnessed a slight correction. Mid-Range rents adjusted downwards by 1.71% whilst High-End rents were impacted further, adjusting negatively by 2.88%.

These adjustments indicate that Phnom Penh has shifted to a tenant market – where landlords are pushing further rental decreases and promoting other incentives to attract tenants.

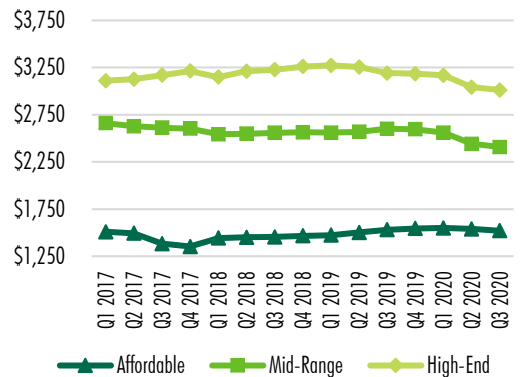
Throughout the sector landlords have been revising the amenities and services offered. The more competitive marketplace can also be seen via the rental agencies, where virtual tours, promotional videos, and an increased marketing presence are increasingly commonplace.

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



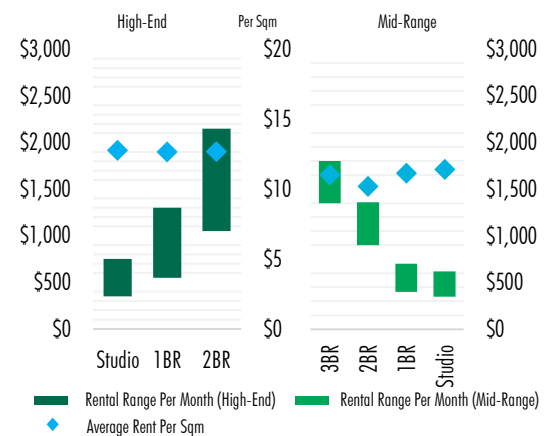
Source: CBRE Research, Q3 2020

**Figure 3: Average Quoted Price Per SQM of Phnom Penh Condominiums (Q1 2017 – Q3 2020)**



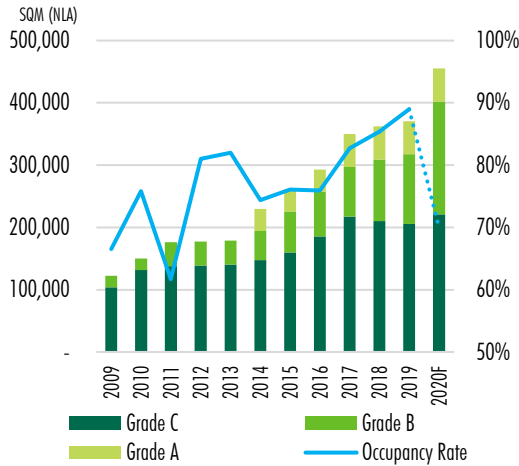
Source: CBRE Research, Q3 2020

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



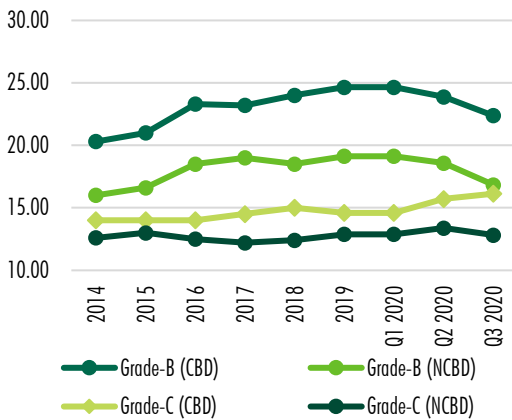
Source: CBRE Research, Q3 2020

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



Source: CBRE Research, Q3 2020

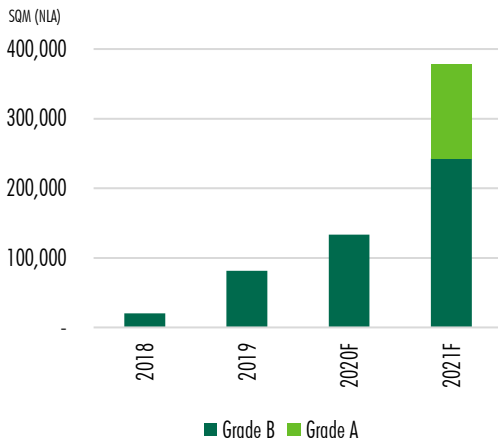
**Figure 6: Phnom Penh Office Average Quoting Rental Rates (USD/SQM/Month) (2014 – Q3 2020)\***



\*Exclusive of service charge

Source: CBRE Research, Q3 2020

**Figure 7: Strata-Title Office Supply (2018 – 2021F)**



Source: CBRE Research, Q3 2020

**SUPPLY & OCCUPANCY**

The third quarter saw the completion of three centrally owned office buildings. Comprising, *TK Central*, *The Point* and *Sayon Phnom Penh*, the new completions cumulatively added an additional 30,007 sqm to the total centrally-owned office supply.

By year end vacancy rates across the market are forecast to increase to the highest levels since 2011. As at Q3 the occupancy rate is 74.7%, however, with more completions expected in Q4 2020, this number is likely to fall further.

There have been 8 completions within the centrally owned office segment year to date, as such, average vacancy was already trending higher with the peak of the current development cycle set to be 2020. However, the development cycle will be extended some months, with an estimated 50,000 sqm postponed into the later half of 2021.

**RENTS**

After a strong 2019, the promise of further growth in 2020 has been curtailed by the impacts of COVID-19 which have led to widespread rental adjustments in all office sub sectors bar one.

Quoting rents within the Grade-B segment have reduced -6.3% and -9.4% in CBD and Non-CBD, respectively. Furthermore, Grade-C NCBD rents also witnessed a negative adjustment of -4.2%. Whilst Grade-C CBD recorded an uptick of 2.6% over the quarter.

Landlords continue to take a pragmatic approach to reduced demand, improving their offerings to suit tenant pain points and being considerably sharper when negotiating lease renewals.

**STRATA-TITLE SUPPLY**

The Strata-Title segment recorded no new completions over the quarter. However, developer optimism remains in the segment as two new launches were announced, namely *Benrich Tower*, located in Duan Penh district, and *Odom Tower*, located in Chamkarmon district.

**SUPPLY**

The completion of two more retail schemes, *The One Mall* and *313 Quayside*, both within the Community Mall segment, added a further 21,800 sqm or 26.1% to the total community mall supply and 6.09% to the total retail supply, during the third quarter of 2020.

A further 3 retail projects, comprising 22,748 sqm are expected to complete by the end of 2020.

No new launches were announced over the quarter.

A number of projects initially expected to complete by the year end 2020 have experienced further delays in completion and an estimated 40,000 sqm of retail space has moved to the supply forecast for 2021

**RENTS**

Google’s mobility trackers indicate that footfall is still suppressed, trending at -11% country wide compared to the pre-COVID baseline as of 27 September 2020. However, this is a significant improvement on the previous quarter. Both public holidays and seasonal promotions have added a boost to footfall.

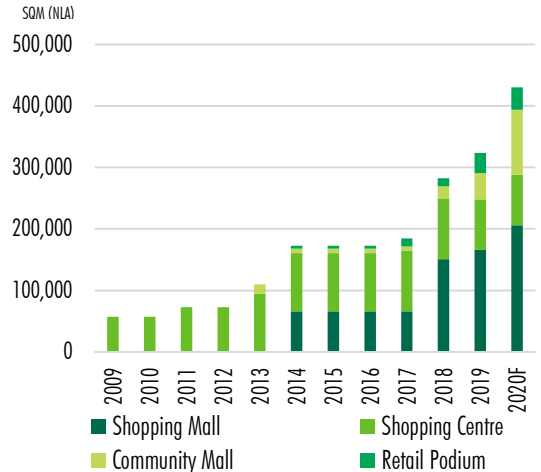
Quoting rents during Q3 2020 remained static, with only the Community Mall quoting rents adjusting downwards, falling 0.36% to \$22.15 USD/sqm/month. The change is likely a result of increasing competition within the subsector, where supply has increased approximately 50% over the past six months.

The reopening of cinemas on 08 August 2020 has further assisted the increase in footfall, despite fewer new films being released. The quarter also saw 4 new brands enter the market, three of which were in the Food & Beverage sector.

**VACANCY**

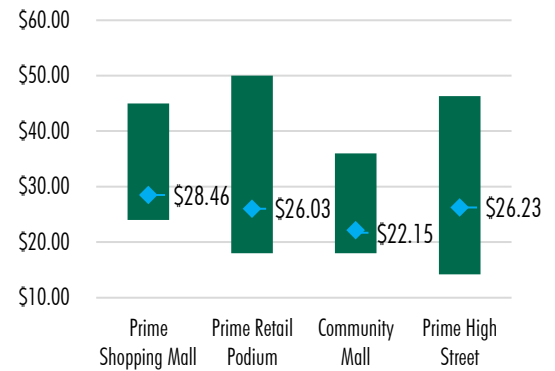
Vacancy picked up slightly in the third quarter of Q3 2020, reaching 10.97%, a change of -0.77%. Occupancy levels have largely been stable over the year and further delays in the supply pipeline may lead to further improvements in occupancy, as retail landlords postpone completions while they lease-up.

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



Source: CBRE Research, Q3 2020

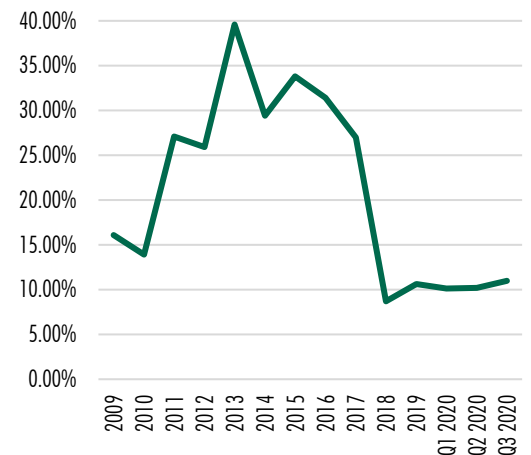
**Figure 9: Quoted Retail Rental Rates by Type (USD/SQM/Month)\***



\* Prime quoting rents for ground and 1<sup>st</sup> floor space, exclusive of service charge

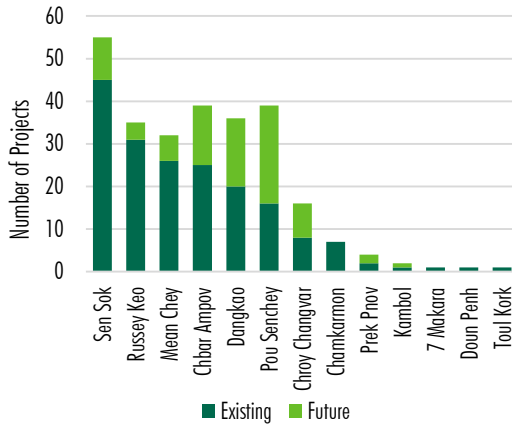
Source: CBRE Research, Q3 2020

**Figure 10: Vacancy Rate of Phnom Penh Retail Supply (2009 – Q3 2020)**



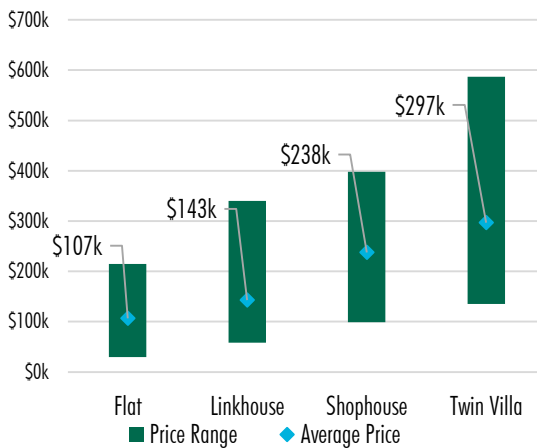
Source: CBRE Research, Q3 2020

Figure 11: Existing and Future Landed Property Projects By District



Source: CBRE Research, Q3 2020

Figure 12: Phnom Penh Landed Property Future Supply By District



Source: CBRE Research, Q3 2020

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



\* Villa includes Single Villas, Prince Villas and Queen Villas.

Source: CBRE Research, Q3 2020

**SUPPLY**

Over a six-month period from Q2 2020 – Q3 2020, 4 new landed property (borey) projects completed and handed over across four districts, Mean Chey, Chbar Ampov, Pou Sanchey and Chroy Changvar Districts.

Perhaps more noteworthy, is that over the same period and despite the ongoing economic uncertainty, 12 projects were launched across seven districts, equivalent to approximately 4,000 units, suggesting continued, robust confidence in this sector.

Sen Sok continues to receive the lion’s share of new projects with 4 of 12 new launches, while Chroy Changvar and Mean Chey both saw the addition of 2 new projects.

Existing developers contributed the most projects, however new entrants made up 25% of total launches over the period, demonstrating a broadening range of future supply within the sector.

**SALE PRICES**

Sale prices within the landed property sector showed no sign of slowing down over the last two-quarters. Driven primarily by strong local demand, the average quoting prices accelerated across 4 of the 5 unit formats.

Compared to Q1 2020, average sale prices of Flat Houses, Linkhouses, Shop Houses and Twin Villas increased 3.4%, 12.5%, 5.4%, and 9.2% respectively.

While the Villa segment saw a downwards adjustment of 4.9%, the range of unit prices in this segment widened even further with prices on the lower end being quoted under \$500,000 and on the upper end quoting over \$2,250,000.

The widening of quoting price range was even more apparent in the King Villa subsector where developers have been asking in excess of \$5m and on the lower end slightly under \$1m. However, this segment also experienced an average decrease in asking prices of approximately 5.0%.

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