

# Phnom Penh, Q4 2020

## Residential Rents Take A Blow, But Pace Of Commercial Rental Decline Begins To Ease

▼ Average High-End Condominium Price  
**\$ 2,987/SQM**

▼ Prime Condominium Rent  
**\$ 12.69/SQM**

▼ Prime Office Rent  
**\$ 23.20/SQM**

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

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

### HIGHLIGHTS

Over the course of Q4, the office sector witnessed further rental corrections across four subsectors. Additionally, the retail sector saw further pressure on retail podium and community mall rents, with prime shopping malls and prime high street rents unaffected.

Compared to H1 2020, the serviced apartment sector experienced a drastic decrease in rent for both Grade A and Grade B segments.

Announcements of new projects remained low throughout the quarter, only the condominium sector recorded launches, adding 3 to the 17 already announced over the course of 2020.

The number of construction projects approved for investment reached 4,841 by the year end, a 1% increase y-o-y. However, the value of projects fell significantly to US\$7.8bn, a 32% decrease y-o-y.

### OVERVIEW

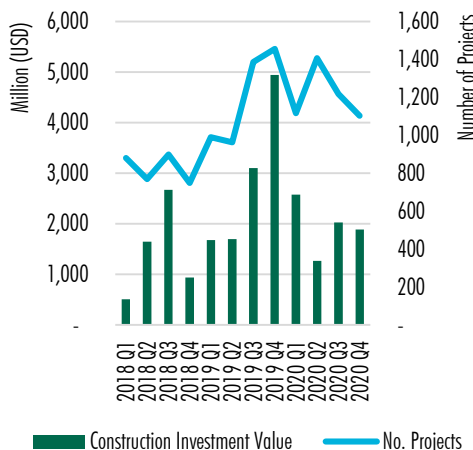
Throughout September the market began to show signs of a recovery, following an 11-day run without any new Covid-19 cases. However, this streak was abruptly ended by two outbreaks in November, wiping out most of the confidence gained in the previous months. Whilst these events caused concern, the immediate impact was contained quickly with the total number of cases recorded at year end at 356.

Lockdown measures in various countries and the continued imposition of travel restrictions continue to inhibit global and regional business, as such domestic groups have continued to generate the bulk of activity.

The focus on domestic market buyers has led to a mismatch between buyer and seller expectations which continues to hamper deal flow to a certain extent. The hurdles to deal completion have also increased, as investors have put potential acquisitions to far more detailed scrutiny.

As the year came to a close, the approved investment into construction figures indicated an accelerated decline, down 32% y-o-y. The large reduction in value y-o-y suggests that developers have taken notice of the supply pipeline in all sectors. Whilst only counted in the figures once, the reduction in approved investment value did not impact large infrastructure projects, with progress on the Phnom Penh – Sihanoukville expressway, New Phnom Penh International Airport, Morodok Techo Stadium and New Siem Reap Airport projects, to name just a few, all reported to be on track.

**Figure 1: Approved Investment into Construction, Value and Number of Projects (Q1 2018 – Q4 2020)**



Source: Ministry of Land Management, Urban Planning and Construction

**SUPPLY**

Q4 2020 saw 2 completions adding 937 units, split across the mid-range and affordable segments, equating to a 3.75% growth to total condominium supply q-o-q.

The sector also witnessed 3 new launches. *Green Leaf Residence* located in Sen Sok is to add 162 affordable units, *Real Hope Condominium* located in Chamkarmon is to add 231 mid-range units and *City Light Condominium* in Chamkarmon is to add a further 105 mid-range units.

Over the year, the sector's supply increased by 17.6%, with 3,778 units added to the total supply. However, this increase is likely to be dwarfed by the forecast completions in 2021 when the sector is expected to add almost 11,000 units.

**SALE PRICES**

Over the course of Q4 2020, the market witnessed a further downward correction of sales prices across all segments.

Average mid-range sales prices weakened the farthest, experiencing its largest decrease q-o-q for the year with a fall of 5.9%, while the high-end sector adjusted downward slightly by 1.6%.

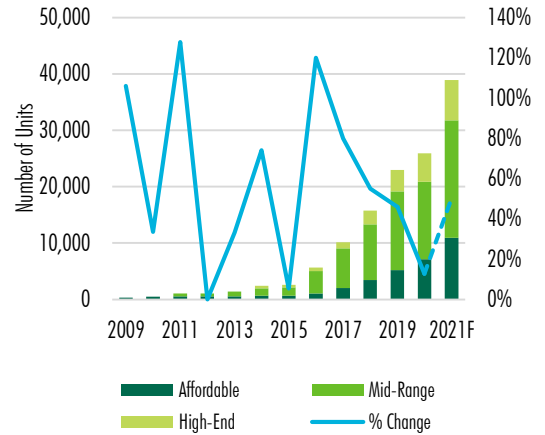
The affordable sector remained the most stable, shrinking by only 1.2%, and dipping under US\$1,500/sqm for the first time since Q1 2019.

Sales price trends reflected both the increase in supply and launches over the year, as well as the reduction in prevalence of foreign buyers, as a result of travel restrictions and the global economic slump.

**CONDOMINIUM RENTS**

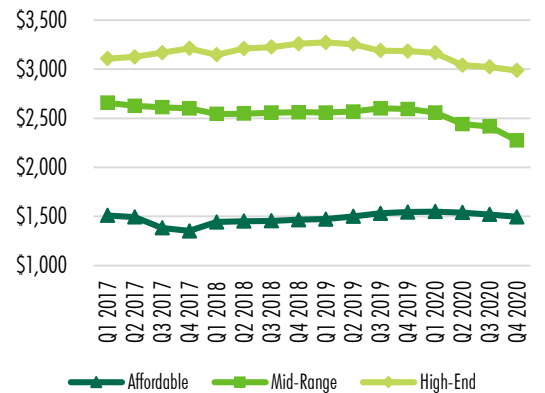
During Q4 2020, rental values across both mid-range and high-end sectors came under pressure, leading to negative adjustments of 6.7% and 0.1%, respectively. Rents averaged US\$10.20/sqm/month in the mid-range and US\$12.69/sqm/month in the high-end segments.

**Figure 2: Phnom Penh Condominium Supply by Grade (2009-2021F)**



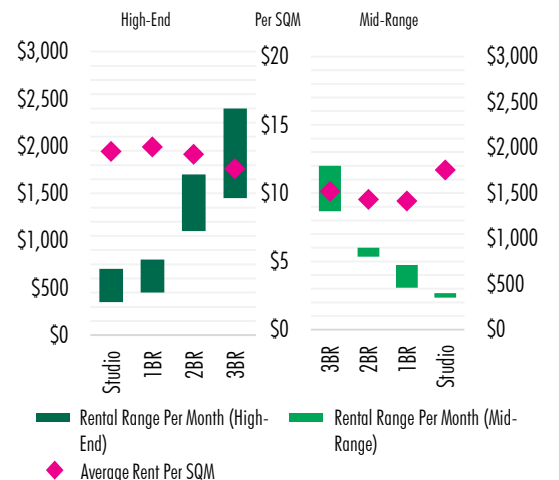
Source: CBRE Research, Q4 2020

**Figure 3: Average Price Per SQM of Phnom Penh Condominiums\* (Q1 2017 – Q4 2020)**



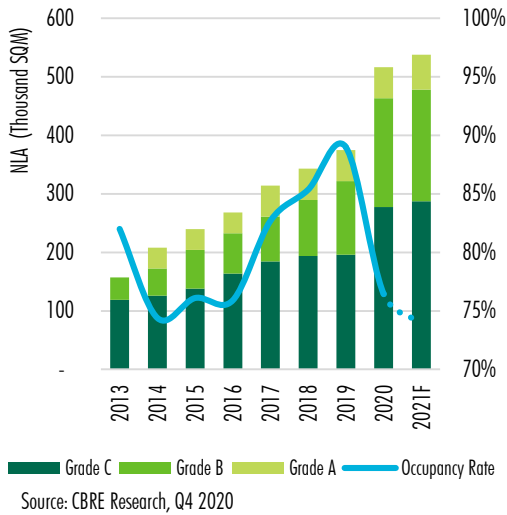
\*Exclusive of Management Fees  
Source: CBRE Research, Q4 2020

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

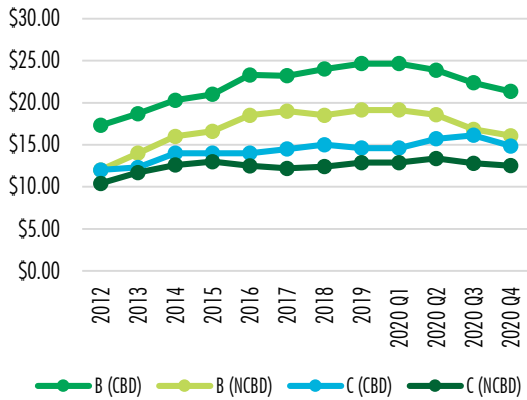


Source: CBRE Research, Q4 2020

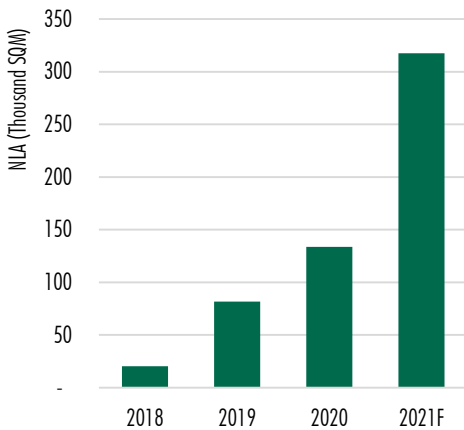
**Figure 5: Phnom Penh Centrally-Owned Office Supply by Grade and Average Percentage Occupancy Rate (2013 – 2021F)**



**Figure 6: Phnom Penh Office Average Quoting Rental Rates (USD/SQM/Month) (2012 – Q4 2020)\***



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



**SUPPLY & OCCUPANCY**

Phnom Penh centrally-owned office saw the completion of three new projects in Q4 2020.

The completion of one Grade B building, located in 7 Makara added approximately 14,584 square metres to the total Grade B supply. Two Grade C completions added a combined 26,805 square metres across Daun Penh and Chamkarmon districts.

Over the course of the year the market saw 11 centrally-owned completions equating to an addition of 125,500 square metres, a 34% increase in space compared to 2019. However, during the fourth quarter of 2020, there were no new launches of centrally-owned office.

Q4 2020 saw average occupancy trend downward by 1.8%. This adjustment compounded the negative trend over the year to a total reduction of 7.8%. It is yet to be seen how effective strata-title options will be in drawing tenants away from centrally-owned buildings, which would add further pressure to occupancy and rent into 2021.

**RENTS**

There was further pressure on rents during quarter four.

As the year concluded, rental rates for Grade B had adjusted the furthest, with Grade B (NCBD) dropping -15.9% followed by Grade B (CBD) slipping -13.5% y-o-y. Grade C fared better with Grade C (CBD) increasing 1.8% and Grade C (NCBD) dipping -2.8% y-o-y.

The rental movements reflected the general market sentiment, with tenants becoming increasingly price-sensitive.

**STRATA-TITLE SUPPLY**

No new strata-title office completed this quarter. The bulk of the upcoming supply is forecasted to complete in 2021, by the end of the year the market will have more than doubled in size.

**SUPPLY & OCCUPANCY**

The quarter boasted no new completions or launches, resulting in the total increase in supply for 2020 being comprised of the addition of 5 community malls which added 40,650 square metres of new stock, a 17.6% increase y-o-y.

Occupancy dropped up over the quarter, with a 5.5% decrease q-o-q. However, considering the level of disruption, occupancy only shifted down by 5.9% y-o-y. The changes in occupancy were predominantly brought on by the increase in supply over the year.

The incident on November 28, which led to the temporary closure of some retail venues, did little to encourage footfall. However, Christmas and New Years sales drew crowds to many of the retail centres. Google’s Mobility Tracker recorded average footfall to be approximately -18% over the quarter vs. the pre-Covid baseline in February.

**RENTS**

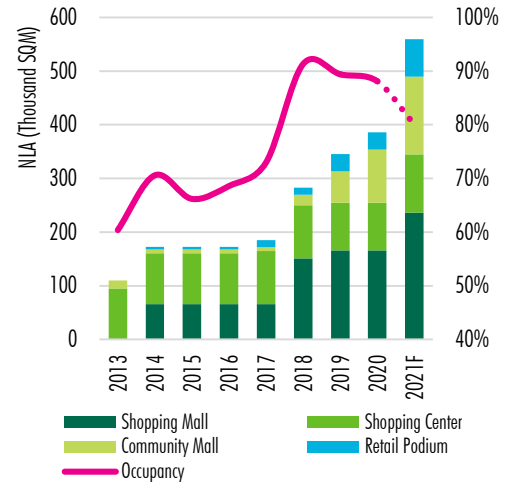
Rents showed mixed results over the quarter. Both Prime Shopping Malls and Prime High Street rents remained unchanged. Retail Podiums had the largest adjustment of -5.9%, reflecting the challenges the format is experiencing.

Community Mall rents also adjusted downwards, compressing 3.3% q-o-q. This fall can mainly be attributed to the additional supply reaching the market throughout the year.

**BRANDS**

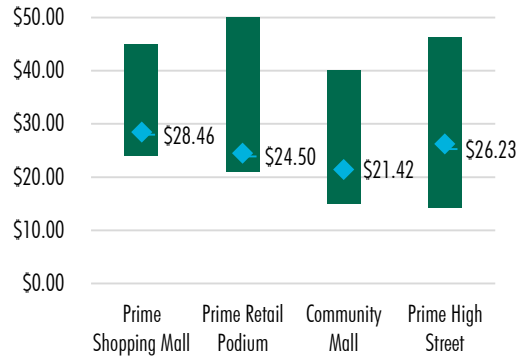
Brand activity increased q-o-q and boasted the strongest net increase since Q1 2020. The quarter saw 12 new entrants, 4 expansions and 1 branch closure. Brand entry and exit activity were split between the F&B and Fashion & Accessories sectors, equating to 64.7% and 35.3% of the activity, respectively. Four large fashion houses made their entry in the fourth quarter including, *Balenciaga*, *Burberry*, *Coach* and *Dolce and Gabbana*.

**Figure 8: Phnom Penh Retail Supply & Average Occupancy Rate (%) (2013 – 2021F)**



Source: CBRE Research, Q4 2020

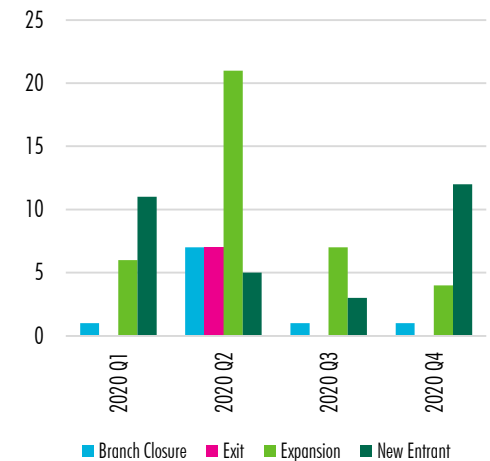
**Figure 9: Average Quoted Retail Rental Rates by Type (USD/SQM/Month)\***



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

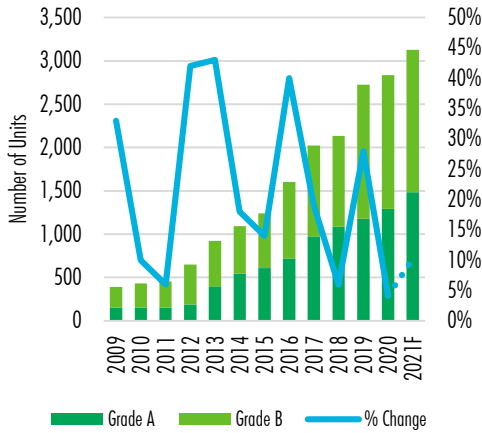
Source: CBRE Research, Q4 2020

**Figure 10: Brand Activity (Q1 2020 – Q4 2020)**



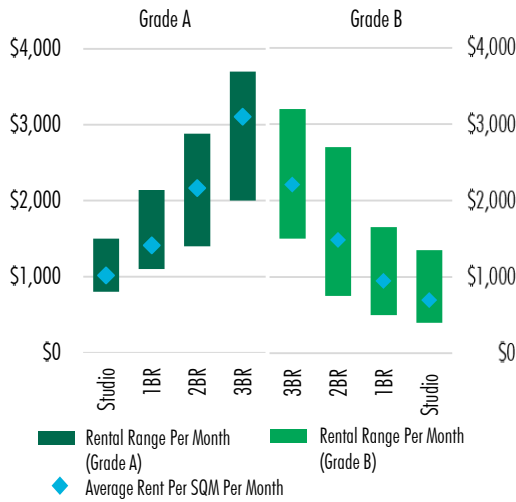
Source: CBRE Research, Q4 2020

**Figure 11: Phnom Penh Serviced Apartment Supply (2009 - 2021F)**



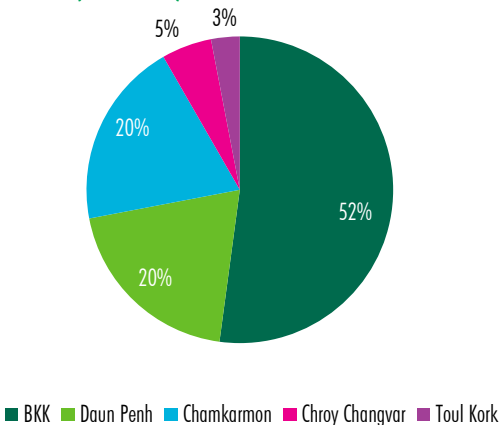
Source: CBRE Research, Q4 2020

**Figure 12: Serviced Apartment Rental Range and Average Rent (USD/Month)**



Source: CBRE Research, Q4 2020

**Figure 13: Distribution of Serviced Apartment Supply by District (No. of Units)**



Source: CBRE Research, Q4 2020

**SUPPLY**

During the fourth quarter of 2020, there was one new completion within the serviced apartment sector in Phnom Penh.

*SunCity* opened their second project in Phnom Penh with *SunCity Bassac* adding 112 units to the total supply. This brought the total supply in the sector across both grades to 2,951 units.

The sector saw no new launches over the quarter, following the same trend for the year. The above completion represented the only change in supply within the sector for FY 2020.

**RENTS**

Q4 2020 saw an exceptionally large downward adjustment in average rental rates across both Grade A and Grade B serviced apartments to US\$2,460 and US\$1,810 per month, respectively equating to negative adjustments of -13.45% and -10.08% compared to H2 2019.

Both the 3-Bedroom and Penthouse units recorded the highest adjustments. However, adjustments overall were more moderate in the Grade A segment.

These trends compounded the rental reductions for the year, during which the sector saw average rental adjustments of -18.5%.

The issues witnessed in Q2 2020 were persistent, as more hotels offering competitive long-term leases continued to capture demand and disrupted travel kept expatriates from returning.

**DISTRIBUTION**

The single completion during the quarter slightly altered the distribution of serviced apartment supply.

Chamkarmon now has taken an equal share with Daun Penh in terms of unit numbers, highlighting the evolution of the market away from the historical city centre.

**LAND PRICES**

Land values remained broadly flat over the year, similar to other regional cities Phnom Penh saw a limited amount of transactional activity, as buyers continue to be in *wait and see* mode.

However, more activity was witnessed with smaller land plots located further from the city centre, as economic pressures caused by the pandemic forced middle-tier investors to make transaction decisions.

Even after a quiet year, Phnom Penh land values have ended the decade with tremendous compound annual growth rates ranging between 7.5% and 15.1%. However, it is clear some districts have performed considerably better than others.

**ECONOMY & FINANCE**

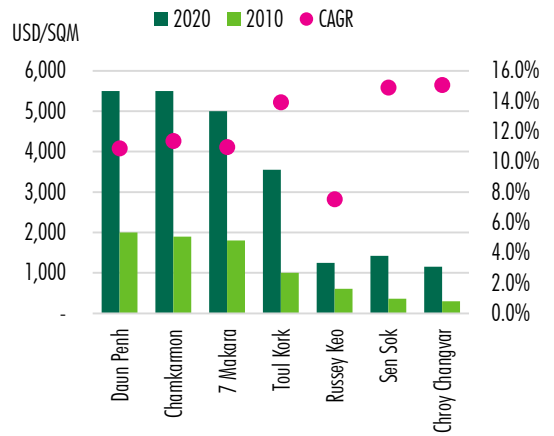
In the World Bank’s latest report, they noted a sharp decrease in construction imports from January to September 2020, citing that many large developments had been put on hold. This was evident in the share of credit granted, which adjusted down for construction by 30 bps over the same period.

More notably both the value and share of finance available for owner-occupied housing mortgages has been increasing, despite the ongoing pandemic. The National Bank of Cambodia reported loans in this category had surpassed US\$3.5bn in August 2020. This indicates continued interest in the local market for landed property (Borey).

As the year concluded, the National Bank of Cambodia provided their latest GDP growth forecasts, maintaining a 1.9% contraction in 2020 and a rebound to 4.0% in 2021. These forecasts were more conservative than those from external agencies.

The Cambodian government further predicted that GDP per capita would see a drastic improvement next year, reaching US\$1,771 up from US\$1,600 in 2020 and equating to a 10.6% increase y-o-y.

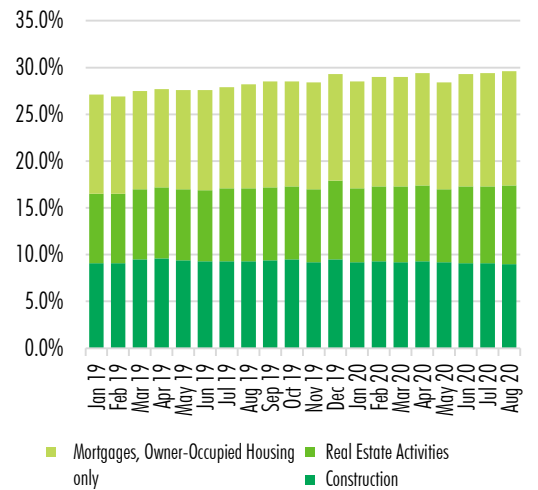
**Figure 14: Indicative Land Value\* Change and 10 Year Compound Annual Growth Rate (CAGR)**



\*Land values stated are for plot size of 0.3 ha - 2ha

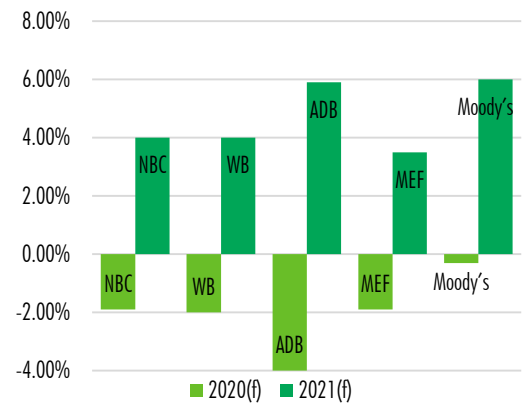
Source: CBRE Research, Q4 2020

**Figure 15: Credit Granted by Deposit Banks Classified by Sector (Share of Total Credits) | (Jan 2019 – Aug 2020)**



Source: National Bank of Cambodia, August 2020

**Figure 16: GDP Growth Forecasts\***



Source: National Bank of Cambodia, World Bank, International Monetary Fund, Asian Development Bank and Moody's.

**PHNOM PENH RENTAL MOVEMENTS IN Q4 2020**

Figure 17: Phnom Penh Average Quoting Rents by Sector (US\$/SQM)

Property Type	Q4 2020	q-o-q	y-o-y
Condominium (High-End)	\$12.69	-0.08%	-6.19%
Condominium (Mid-Range)	\$10.20	-6.70%	-12.38%
Office (Grade B CBD)	\$21.33	-4.66%	-13.46%
Office (Grade B NCBD)	\$16.08	-4.47%	-15.96%
Office (Grade C CBD)	\$14.86	-7.89%	+1.76%
Office (Grade C NCBD)	\$12.51	-2.31%	-2.84%
Retail (Shopping Mall)	\$28.46	0.00%	-11.75%
Retail (Retail Podium)	\$24.50	-5.88%	-17.87%
Retail (Community Mall)	\$21.42	-3.30%	-7.07%
Retail (Prime High Street)	\$26.23	0.00%	-1.02%

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