

Vaccine rollout, light at the end of the tunnel?



Average High-End Condominium Price
\$2,802 PSM



Prime Condominium Rent
\$12.35 PSM PM



Prime Office Rent
\$22.00 PSM PM



Prime Retail Mall Rent
\$27.56 PSM PM

HIGHLIGHTS

- 19.9% of the population has been fully vaccinated.
- The World Bank (WB) and AMRO's GDP growth forecasts remain positive.
- Other than Prime office, all office sub-sectors' quoting rents remained stable or rose when compared to the first quarter.
- Two notable retail podiums entered the supply pool in Q2 2021.
- Condominium quoting sales prices saw downward corrections across all grades.
- The Phnom Penh Serviced Apartment space remained quiet with no new completions or launches in H1 2021.

OVERVIEW

The quarter was defined by the impact of the country's worst outbreak of COVID-19 and the government's impressive vaccine rollout, with full inoculations now at 19.9% of the population.

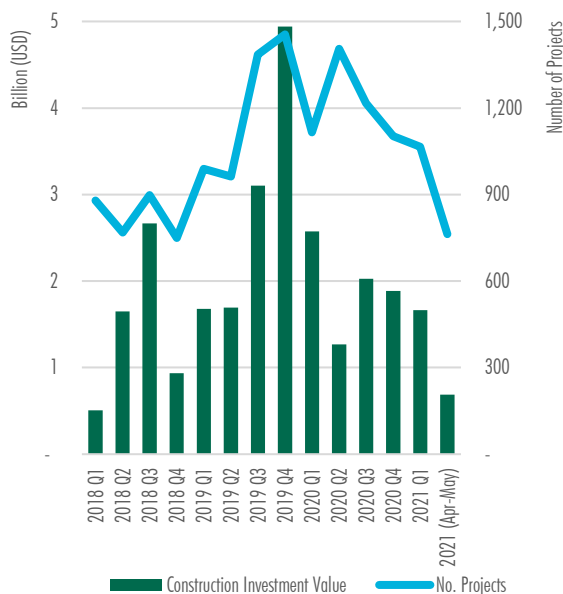
If the vaccine rollout proves effective, Cambodia's economy will slowly start to recover through increased confidence and improved mobility, compounded by a solid rebound in the Chinese economy. Recovery in the West may buoy the nation's emerging manufacturing base, as consumption rises and global lockdowns ease. Although questions remain as to how much capacity remains following a volatile year.

Inbound tourism remains non-existent due to travel bans, quarantine requirements and social-distancing measures. Cambodia is watching Thailand's 'sandbox' of Phuket with bated breath in the hope high vaccination numbers can provide a route to tourism recovery.

The World Bank (WB) and AMRO's 2021 GDP growth forecasts remain positive, at 4.0% and 4.7%, respectively. AMRO's forecast moved downward from its original 2021 forecast of 5.2%.

The figures for approved investment into construction showed a downward trend over H1 2021 – due to the uncertainty of the past year. Compared to the same period in H1 2020, the number of approved projects decreased 27%, whilst the value of those projects fell by 39% (H1 2021 data: Year to May 2021).

Approved Investment into Construction, Value and Number of Projects (Q1 2018 – May 2021)



Source: Ministry of Land Management, Urban Planning and Construction

POLICY

To counter the fallout from the ‘February 20th Event’, on April 15th the government implemented a full lockdown of Phnom Penh - restricting all movement except for emergency or essential purposes for two weeks. The impact of the strict lockdown can be observed in Google Mobility data which shows a 26.5% jump from the baseline for places of residence, and conversely pushing trips to workplaces to an average of negative 42.7% over the quarter.

Cambodia’s Government responded with a remarkable vaccination program, backed strongly by China, Australia, and the United States. A relatively ample supply of vaccines allows Cambodia to target herd immunity by year’s end – a significant outperformance of initial forecasts.

Despite the effectiveness of the rollout, some concerns remain around the efficacy of the vaccines of choice and the danger posed by the Delta variant, creating additional uncertainty in the mid-term.

The Cambodian General Department of Taxation maintained the temporary tax exemptions for tourism, hospitality and aviation businesses in seven target locations. The exemption was stated to apply until June 2021.

INFRASTRUCTURE & DEVELOPMENT

National Ring Road No. 3 reached 50% completion; this major infrastructure project will ease transport connectivity around the Capital.

Chroy Changvar marked a milestone in its preparation for the *2023 SEA Games*; as of April 2021 progress of the *Morodok Techo Stadium* reached 100%. Post completion, the stadium will be the largest in Cambodia.

The *Phnom Penh – Sihanoukville Expressway* continued to progress despite the pandemic. As of June 2021, development reached 51% completion. The project is progressing ahead of schedule and is set to reach full completion in September 2022.

In late May 2021, construction on the *New Phnom Penh International Airport* was around 40% complete. The project is expected to reach 60% completion by the end of 2021. The airport will stretch over a 2,600-ha plot, located south of Phnom Penh in Kandal Province. Its completion, in 2023, is expected to drive development of Southern Phnom Penh as a future cluster of economic activity.

Ground-works for the *Naga 3* casino and hotel project commenced in earnest. The project is expected to complete in 2024.

Phnom Penh Average Quoting Rents by Sector (US\$/SQM/Month)

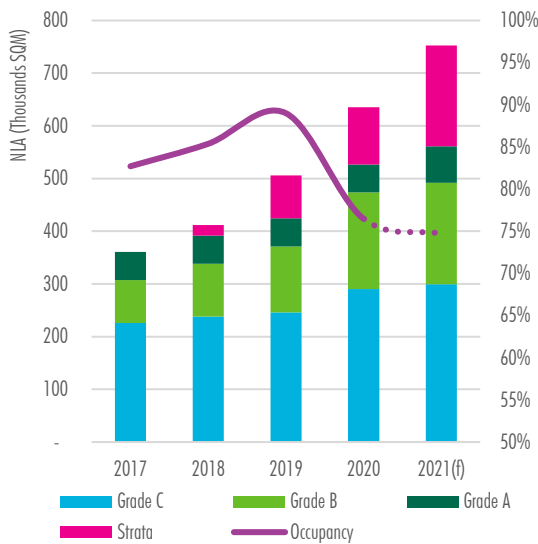
Property Type	Q2 2021		Q-0-Q		Y-0-Y
Office (Grade B CBD)	\$22.00	▶	0.0%	▼	-7.56%
Office (Grade B NCBD)	\$16.79	▲	1.03%	▼	-9.27%
Office (Grade C CBD)	\$14.86	▶	0.0%	▼	-5.37%
Office (Grade C NCBD)	\$12.97	▲	0.42%	▼	-2.46%
Retail (Shopping Mall)	\$27.56	▼	-3.2%	▼	-3.2%
Retail (Retail Podium)	\$22.22	▼	-9.3%	▼	-14.6%
Retail (Community Mall)	\$21.58	▼	-3.3%	▼	-30.9%
Retail (Prime High Street)	\$23.61	▶	0.0%	▼	-10.0%

Source: CBRE Research, Q2 2021

OFFICE

The centrally-owned office sub-sector is expecting 34,552 sqm of space to complete over the course of 2021. However, weakened developer sentiment and construction supply chain issues are disrupting completion timelines.

Total Phnom Penh Office Supply and Centrally-Owned Office Average Occupancy Rate (2017 – 2021F)



Forecasted occupancy rate for centrally owned office only by the end of 2021F.

Source: CBRE Research, Q2 2021

Combined with the forecast strata-title supply of 82,465 sqm, the office sector is expecting 117,017 sqm of new completions this year.

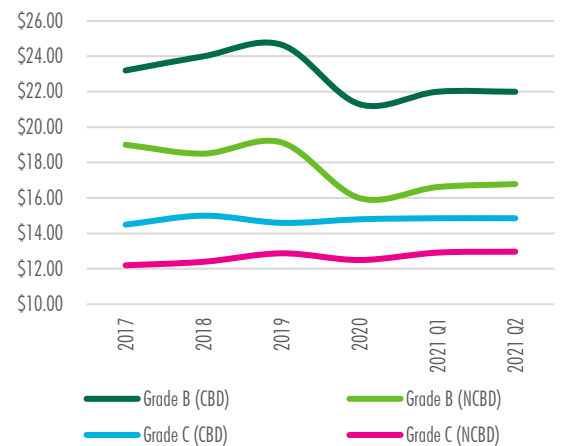
Two strata projects were completed in Q2 2021, *The Gateway* and *KY iCentre*, added 38,900 square metres of NLA to total supply. Additionally, the completion of *The Commune & Vann Office Premises* in Q2 marked the entry of 7,300 square metres of NLA to the centrally owned market.

With the entry of new stock onto the market, centrally-owned office occupancy dropped to 72.7%, due to a combination of increasing stock and occupiers shifting to better value options as competition heats up and a flight to value unfolds.

As the vaccine program has rolled out and restrictions eased, inspections have picked up and deals are moving forward, largely unaltered from previously anticipated volumes. Whist deal volumes picked up compared to last year, average achieved rents continued to moderate in Q2.

Occupiers are taking note of the shifting market, adapting their long-term strategies as the sector enters a declining period in the rent cycle and moves more firmly towards a renter's market.

Phnom Penh Centrally-Owned Office Average Quoting Rental Rates (US\$/SQM/Month) (2017 – 2021 Q2)



Source: CBRE Research, Q2 2021

Other than Prime office, all sub-sectors' quoting rents remained stable or rose when compared to the first quarter. Prime office dipped by -3.36% q-o-q.

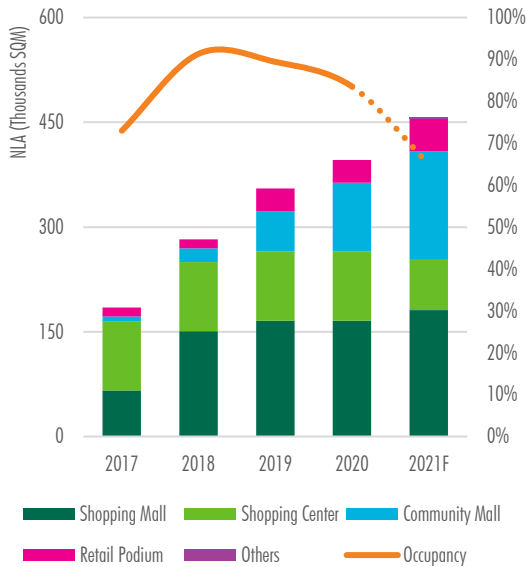
Tenants are returning to work as immunisations advance in Q2 2021, with Google's mobility tracker indicating a gradual trend towards pre-Feb outbreak levels, from -81% mid-April to -20% in June.

Fundamentally, the trends witnessed in Q2 2021 have been unfolding for a number of years. The pandemic has reinforced the inevitable impact of high supply in a market with limited demand drivers. A contest for occupiers is already underway and landlords are working hard to find innovative solutions to capture demand.

RETAIL

Two notable retail podiums completed during Q2 2021, adding approximately 10,000 square metres of NLA to total supply. Total retail supply stands at 385,402 sqm of NLA, consisting of 31 projects across six sub-categories.

Phnom Penh Retail Supply and Average Occupancy Rate (2017 – 2021F)



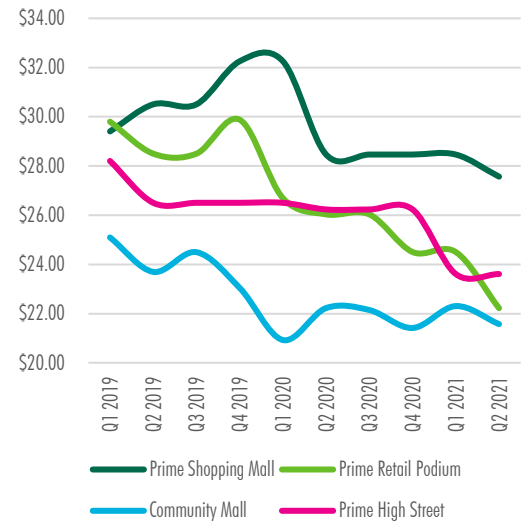
Source: CBRE Research, Q2 2021

During the remainder of 2021, the sector is expecting the completion of 7 projects, totalling 64,102 square metres of supply - a substantial downward adjustment from earlier forecasts due to construction supply chain disruption and slower than forecast lease-up rates.

Increasing supply and reducing footfall numbers have led to further vacancy across the sector, which rose to an average of 28.5% in the second quarter of 2021. Anecdotally speaking, e-commerce may also be a growing factor in reducing footfall volumes as consumers have an increasing number of consumption channels, especially for F&B.

Google’s mobility tracker indicated that retail and recreation activity was on average 46.9% lower than the February 2020 baseline.

Phnom Penh Retail Average Quoting Rental Rates (US\$/SQM/Month) (Q1 2019 – Q2 2021)



Source: CBRE Research, Q2 2021

Other than Prime Highs Street, all retail segments experienced reductions in Average Quoting Rental Rates during Q2 as the market continued to face increasing average vacancy.

The volume of brands expanding dipped compared to the preceding quarter. CBRE observed only four new entries in Q2, a reduction on the five seen in Q1. The slowing pace of activity is highly correlated with reduced footfall and changing spending patterns as a result of the pandemic.

Of the four notable brands entering the market in the second quarter, two were French brands in the fashion and premium homeware segment.

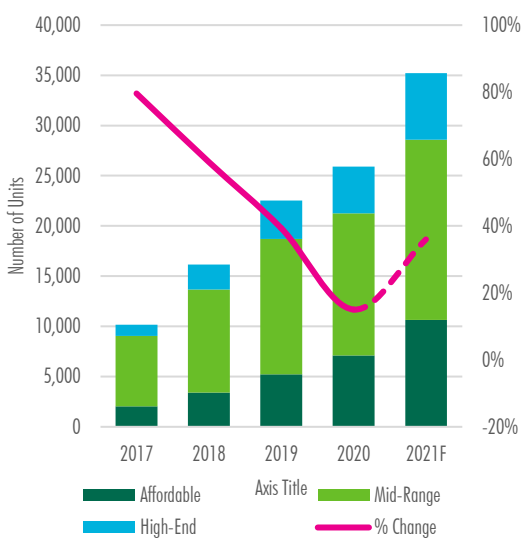
The quarter was the worst period of the pandemic for Cambodian retail landlords and tenants alike, compounding the challenges of the preceding year. During Q4 2020 & Q1 2021, high-frequency household phone surveys completed by the World Bank and the National Institute of Statistics, indicated 50% of households are have seen a decline in household income.

CONDOMINIUM

During Q2, the 2021 supply pipeline noticeably compressed as numerous projects were delayed. As of Q1, 10,825 units were anticipated to complete this year; it is now expected that 7,909 units will be completed by the year-end. This reduction in forecast supply is an indicator of a significant shift in developer sentiment due to general market unpredictability, the impact of lockdown on construction progress, slowing sales rates, the impact of pressure on construction material supply chains and developer cash flow.

The second quarter witnessed the completion of one project, *Golden One*, in BKK1, which added 480 units to supply, on the back of which cumulative total supply of condominiums reached 27,173 units.

Phnom Penh Condominium Supply by Grade (2017 – 2021F)

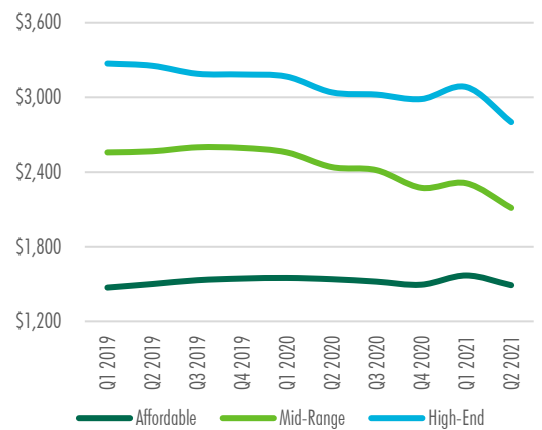


Source: CBRE Research, Q2 2022

The ongoing shift in the market towards the Affordable segment has been further cemented during the quarter, and this has been particularly visible in the pricing trends, which indicate demand driven development strategies taking precedence. Competition from both domestic and international developers is expected to rise in the lower end of the market as players seek new product categories to trade in.

However, the effects of lockdown, falling developer sentiment and increased competition amongst developers for a reduced pool of domestic buyers has led of further corrections in pricing Q-o-Q, with the High-End segment witnessing the greatest decrease in asking rates, down -9.12%. The Affordable sub-market saw the lowest shift in sales price, with the sector average trending down by -4.87%.

Phnom Penh Condominium Average Quoting Sale Prices by Grade (US\$/SQM) (Q1 2019 – Q2 2021)



Source: CBRE Research, Q2 2022

During Q2, the average asking price for a High-End unit was approximately \$2,802 per sqm and at the opposite end of the market, the Affordable segment saw average rates per square meter of \$1,492.

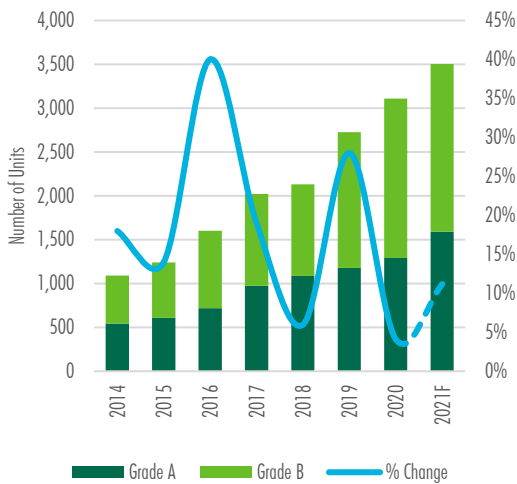
Constraints on international and local travel have weighed on the condominium market across the second quarter. Vaccinations represent an opportunity to see a resurgence in local demand once greater levels of stability are attained, however, it appears it will be some time before international sales return to their former strength.

In response to the headwinds of COVID-19, developers have responded through the provision of various promotional activities ranging from the inclusion of furniture packages, to more flexible payment terms - nonetheless it is clear that many developers still experiencing lower sales rates than were witnessed last year.

SERVICED APARTMENT

The Phnom Penh Serviced Apartment market remained quiet, seeing no new completions or launches in Q2 2021. However, we continue to expect a further 395 units completed before the year end.

Phnom Penh Serviced Apartment Supply (2014 – 2021F)



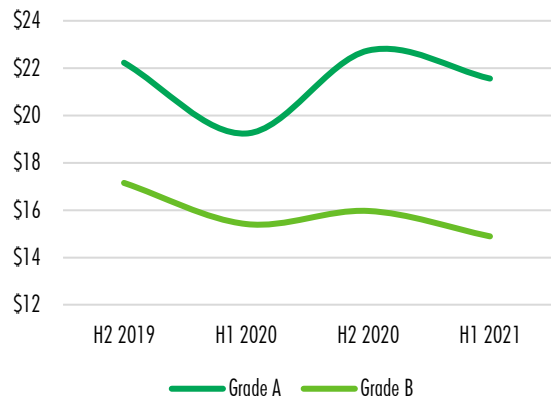
Source: CBRE Research, Q2 2021

While the sector is expecting relatively low supply this year, threats for the market will emerge as a greater number of condominium units reach completion. To a certain extent, competition from the condominium sector will weigh further on rents for serviced apartments. Operators will be relying on their superior service offering and COVID-19 safety protocols to help them stand-out and achieve premium rents.

The *'February 20th Event'* led to a resurgence in expatriate exits, although there was a uptick in enquiries towards the end of the quarter. Overall, the effect on occupancy has been negative during the second quarter.

Since the start of the year, Grade A and Grade B serviced apartments have seen their rents fall by circa 5.2% and 6.7%, to an average of US\$22 per sqm and US\$15 per sqm, respectively. Discounting remains the principal tool for operators to attract occupiers.

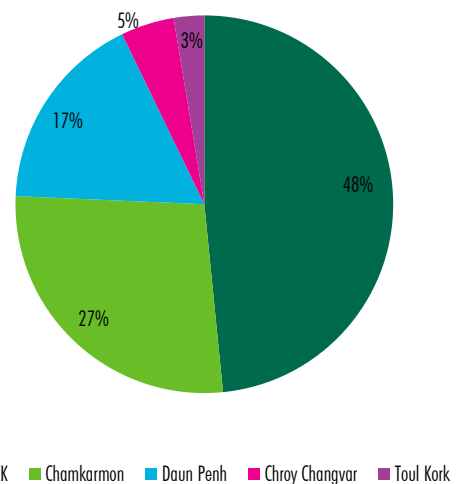
Phnom Penh Serviced Apartment Average Rental Rate by Grade (US\$/SQM/Month) (H2 2019 – H1 2021)



Source: CBRE Research, Q2 2021

The inner-city districts of BKK, Daun Penh and Chamkarmon continue to provide almost all of Phnom Penh's serviced apartment supply – as proximity to the Central Business District continues to prove attractive to expatriate talent.

Distribution of Serviced Apartment Supply by District (No. of Units)



Source: CBRE Research, Q2 2021

As international travel remains restricted, both new short-term and long-term tenants will remain few and far between, weighing on rental rates for the mid-term as players compete for potential guests. However, as is the case with all segments, the vaccine roll-out domestically and regionally presents some cause for optimism into 2022, albeit with caveats and risk attached.

DEFINITIONS

CENTRALLY-OWNED

The whole property is held by a single owner or company owning more than 70% of the entire asset and multi-let.

COMMUNITY MALL

A type of retail development seen with a lower net leasable area and one to two anchor tenants. This type of mall focuses on the community consumer by offering F&B, entertainment, and fashion outlets.

CONDOMINIUM

A residential building in which the developer of the building sells individual units to buyers.

LANDED PROPERTY

A gated and private residential compound, locally known as Borey.

OCCUPANCY RATE

The space of the property that is occupied or leased, presented as a percentage of total leasable area.

PRIME HIGH STREET

Retail units for lease along prime roads (with high traffic) such as Preah Sihanouk Blvd, Rue Pasteur No. 51, and Preah Sisowath Quay street. Prime high street retail unit comes at different types such as villa, flat house and open land.

QUOTING RENT

The landlord's asking rent, often referred to as headline rent or offer rent. Unless otherwise stated, figures in this report are exclusive of service charge.

RETAIL PODIUM

A form of shopping bloc located under a commercial or residential complex. Retail Podium mainly focuses on Fashion, F&B, and Entertainment.

SHOPPING MALL

A large-scale retail project with two or more anchor tenants. Shopping malls usually span across a larger land area, with lower NLA/GFA efficiency rates.

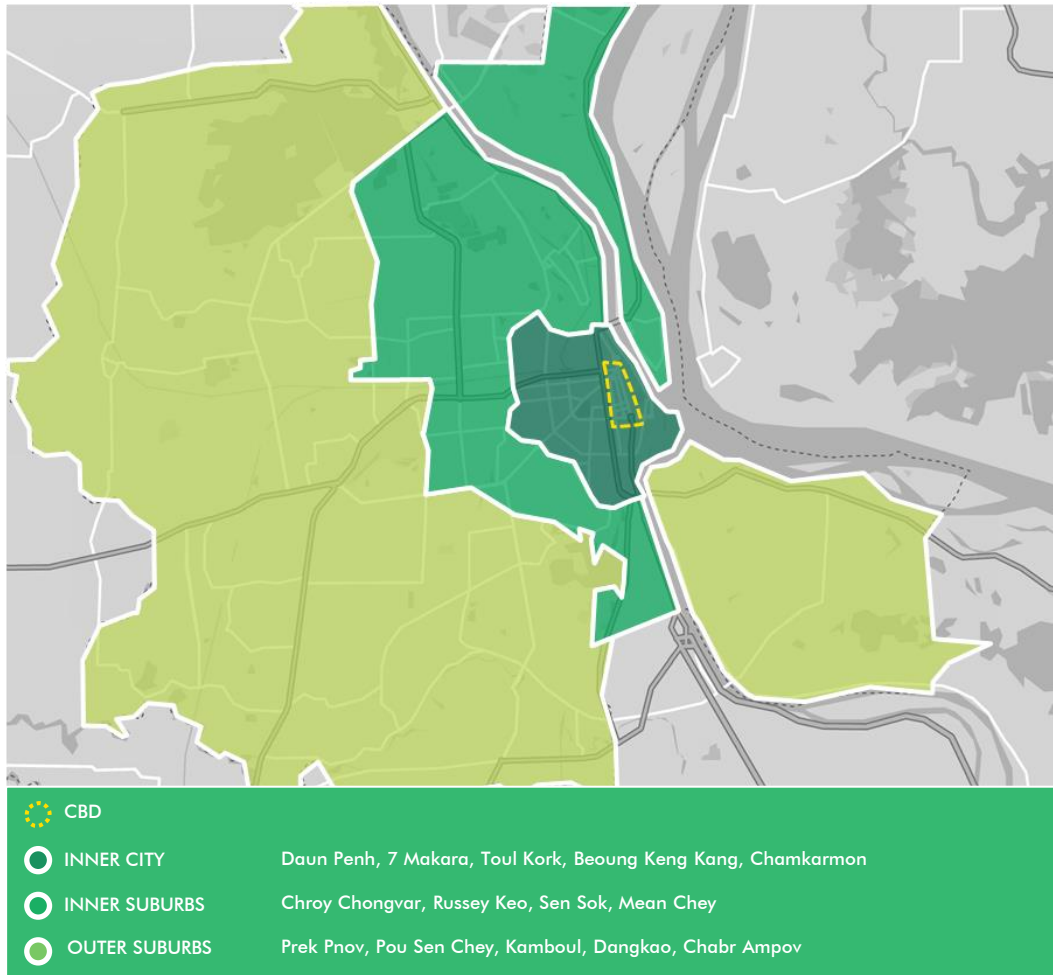
STRATA-TITLE

The ownership of physical part of a co-owned building, seen in condominium, office buildings, and some retail developments.

ACRONYMS

AMRO	ASEAN+3 Macroeconomic Research Office
CBD	Central Business District
GDT	General Department of Taxation
GFA	Gross Floor Area
MEF	Ministry of Economics and Finance
MLMUPC	Ministry of Land, Urban Planning, and Construction
NBC	National Bank of Cambodia
NCBD	Non-Central Business District
PM	Per Month
PSM	Per Square Meter
Q-O-Q	Quarter on quarter
SQM	Square Metre
WB	(The) World Bank
Y-O-Y	Year on year

Map of Phnom Penh



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