

## What's Happening in Cambodia Market & Valuation

Vol. 57 - December 2022 -

### Special Economic Zones in Cambodia spurring Development

カンボジア全土で経済特区（SEZ）が設立され、そこでは投資家に対して「輸出入にかかわるワンストップサービス」を提供して、貿易を促進してきている。これらのハブは、国の経済発展に貢献し、主要輸送ルートで相互に一層結ばれてきている。

*Learnt from: Khmer Times (30<sup>th</sup> November, 2022)*

### Chinese investors tout high real estate potential of north Phnom Penh

多くの中国の投資家はプノンペン北部の住宅プロジェクト開発に注目したが、2022年の1-9月には、全国3,000件以上の建築許可が発行され、投資額は20億ドル近くに上った。

*Learnt from: Khmer Times (5<sup>th</sup> December, 2022)*

### Where is the Cambodian Retail Sector Growth Leading Us?

カンボジアの都市における主要なハブでは、消費者行動の変化によって、小売環境が劇的に変化している。また、個人富裕層（High Net Worth Individuals）の増加と収入増で、商業開発の形態や開発地域の広域化している。一方、プノンペンにおけるモール数は増加しており、高級店舗は拡大傾向にある。

*Learnt from: Construction-Property 7<sup>th</sup> December, 2022)*

### Perpetual leases: what are the rights of the lessor and lessee?

民法第244条によると、永久賃貸借とは15年以上の不動産長期賃貸借を指す。当該永久賃貸借の賃貸人および賃借人に対するいくつかの主要な権利がこの条項に規定されている。

*Learnt from: Khmer Times (11<sup>th</sup> December, 2022)*

### Cambodia's China dependence deepens as first expressway opens

中国主導による3年間の建設工事の後、カンボジア初の有料高速道路が開通した。建設費は約20億ドルで、首都プノンペンと港湾都市シアヌークビル間の190kmを結ぶ。

*Learnt from: Khmer Times (13<sup>th</sup> December, 2022)*

## **Special Economic Zones in Cambodia spurring Development**



*Industrial Park of Sihanoukville Special Economic Zone*

Special Economic Zones (SEZs) were established throughout Cambodia to provide investors with a “one-stop service for imports and exports” and to facilitate trade. These hubs have also been instrumental for national economic development and are increasingly being linked by key transport routes. Pre-pandemic, it was estimated that more than 50 SEZs in the Kingdom, collectively employing a workforce of 130,000 people in more than 450 factories. All of the Special Economic Zones in Cambodia attract investors by providing a range of services and economic benefits, these include reliable water and power supply, duty exemptions, 0% Value-Added-Tax (VAT) on exports and transactions within the SEZ, as well as incentives.

### ***Sihanoukville Special Economic Zone (SSEZ)***

Sihanoukville Special Economic Zone (SSEZ) Co., Ltd, is the operator of 11.13 square kilometer special economic zone on the southern Cambodian coast – it is the largest by size and occupancy in the Kingdom. In 2022, there are 170 factories from China, Europe, the United States, Southeast Asia and other regions in the SSEZ which have a total investment of more than USD 1.3 billion, and create around 30,000 jobs. The value of imports and exports passing through the SSEZ in Cambodia topped the USD 2 billion mark by October 2022. This represents an increase of over 17 percent compared with 2021. For reference, the total value of imports and exports passing through the SSEZ in 2021 was \$2.2 billion.

### ***Poipet O’Neang Special Economic Zone (POSEZ)***

In the northwest of the Kingdom, located near the Thailand border, the POSEZ has been operated since 2005 and today employ nearly 10,000 people. POSEZ covers over 260 hectares and it has access to a key border crossing with Thailand, which provides convenient and economical access to a global market via air, rail and seaports. In the POSEZ, businesses are offered a 9-year tax vacation, while visas can be arranged for families of investors. They also offer a One Stop Service (OSS) designed to facilitate application, information, company registration, evaluation, investment approval, license and permit acquisition. The main business targets are manufacturers of auto-parts, agricultural machineries, agro-based products and biotechnology, consumer electronics, garments, industrial tools & parts etc.

### ***Positive impacts of Trade Agreements for SEZ in Cambodia***

The Regional Comprehensive Economic Partnership (RCEP) and new bilateral free trade agreements have generated increased exports from the POSEZ to Thailand. For the SSEZ, there has been a relatively weaker performance of imports and exports as the year has progressed due to sluggish demand on the international markets caused by uncertainty in the financial markets, the conflict in the Ukraine and the ongoing zero-COVID policy in China. However, the trade agreements, as well as increasing international interest in Cambodian-made products, means there is huge potential for the upside. By offering attractive incentives and one-stop business services, these SEZ drive Direct Foreign Investment and are a source of skilled labour, which spur national projects and have a positive impact on the national economy.

*Learnt from: Khmer Times (30<sup>th</sup> November, 2022)*

### **Chinese investors tout high real estate potential of north Phnom Penh**

Chinese investors looked at the development of housing projects in the northern part of Phnom Penh and said there is still a lot of potential for Borey Villa and condominium projects in the area. According to a report from the Ministry of Land

Management, Urban Planning and Construction, in the first nine months of 2022, the ministry issued more than 3,000 construction permits nationwide with an investment of nearly \$2 billion. Out of all projects, 20 Borey housing projects and 98 high-rise building projects were approved. The northern part of Phnom Penh still has a lot of opportunities for investment, while the demand for renting and buying condominiums seems to recover after the Covid-19 pandemic. According to the Cambodian Builders Association, in Phnom Penh and Sihanoukville, there is a significant growth of modern high-rise buildings.

*Learnt from: Khmer Times (5<sup>th</sup> December, 2022)*

### **Where is the Cambodian Retail Sector Growth Leading Us?**

The dramatic changes to the retail landscape of the main urban hubs in Cambodia are also seeing changing habits of the consumers, and the increase in the income and the number of HNWI (High Net Worth Individuals) are helping shape the retail planning and sprawl of the cities. New mall developments such as the Chip Mong Sen Sok Mall, Chip Mong 271 Mega Mall, Prince International Plaza, and AEON 3 are a small snapshot of the type of new shopping mall and customer experience that are springing up in the Kingdom. According to the CBRE, retail occupancy was around 70% and that brick-and-mortar retail outlets remain in strong demand, which is contrary to several developed city centers where many high street shops are in decline. In Cambodia, competition has also been heating up with grocery retail stores too. Franchises like 7-Eleven have quickly expanded in Cambodia and even Prince Supermarket is looking to radically grow and open more than 100 franchise stores by the end of 2023 and with 150 planned by the end of 2024 in a very competitive market. Makro has doubled down on its market capitalization with its huge megastores, with plans to have as many as three locations in the capital (the most recently just opened in Chroy Changvar last month).

### ***Rise of the Malls in Phnom Penh***

In the south Phnom Penh, the Chip Mong Megamall 271 and Aeon 3 are both huge modern malls – with US\$ 2.2 billion of investment being spent on public infrastructure – the area of the city is attracting large-scale real estate investments. According to the Retail Insights Edition 5, there are 5 completed and open modern retail centres; 3 modern retail centres are currently under development; 1 modern retail centre is currently on hold. In total, 9 modern retail centres are expected by 2024. In the space of a few years, the amount of retail space has grown from around 10,000 sqm in 2019 and has reached 82,843 sqm in 2022. An expected additional 157,902 sqm of new retail supply is due to be added between 2023-2024. On the positive future outlook of the capital's south, due to a comparatively small supply of modern retail for many years, South Phnom Penh will see a substantial increase of modern retail space over the next two years. With the advent of major new retail centers, the Phnom Penh; south supply will increasingly outpace demand, creating a highly competitive retail landscape. With such significant increases in modern retail supply by 190.6% going forward into 2024. Downward pressures on retail rents will likely occur, especially for non-prime locations within existing and new retail projects.

### ***Luxury Retail Set to Expand***

Due to government's re-assurances that the Kingdom will be a high-middle income country by 2030, as well as the enticing investment laws and good economic growth predicted, and there are also an increased number of HNWI (High Net Worth individuals). Cambodia is now home to more than three thousand millionaires – retail and franchises also need to consider this shifting consumer wealth and dynamics. Food and beverage, and fashion remain the dominant market share expansion in Cambodia's retail growth. The Naga 3 complex continues its skyward development, but initial plans were for the site to also connect to the already existing underground and duty-free NagaCity Walk shopping mall which connects NagaWorld and NagaWorld 2 and offers several mid and luxury range brands. There undoubtedly will be challenges and growing pains in Cambodia,

but a more diverse, more consumer-conscious retail market, increasing expendable income, and developers and retail property owners keeping their fingers on the pulse of future tech and utilizing immersive experiences all bode well for a retail scene that is expected to make massive leaps over the coming years.

*Learnt from: Construction-Property (7<sup>th</sup> December, 2022)*

### **Perpetual leases: what are the rights of the lessor and lessee?**

According to article of 244 of the Civil Code, a perpetual lease refers to a long-term lease of immovable property for not less than 15 years. The agreement/contract must be written to be effective by law, otherwise, it will be considered a lease for an indefinite period (general lease). The contract is quite similar to a general house or land lease contract, but they mandate the rights of the lessor and lessee differently. Perpetual leases are mostly applied to commercial activities, such as the leasing of commercial buildings, state-owned private property, and economic land concessions. The period of the contract must not be less than 15 years but cannot exceed 50 years. If the period is more than 50 years, it must be reduced to just 50 years. However, the contract can be renewed but not for more than 50 years (Article 247 of the Civil Code). According to article 246 of the Civil Code, the perpetual lessee must register his or her perpetual lease with the Department of Land Management, Urban Planning, Construction and Cadastral in order to hold up against a third party. The department will issue a certificate of perpetual lease to the lessee.

Below are some main rights of perpetual lessor and lessee:

#### **1. Rights of perpetual lessor:**

-Right to demand the increase of rental fee (article 249): lessor may request the court to increase the rental to an appropriate amount if the rental fee is no longer appropriate on account of a change in circumstances. For instance, the lessor may increase the rental if the rent does not match the

value of the property due to the change in market price.

-Perpetual lessor's right of cancellation (article 250): If the perpetual lessee fails to pay the stipulated rental for three years, the perpetual lessor may cancel the perpetual lease.

#### **2. Rights of the perpetual lessee:**

-Rental (article 248): the perpetual lessee shall pay the rental to the perpetual lessor at the stipulated time.

-Right to demand decrease of rental (article 249): in such long-term leases, the market of real estate is not stable. Therefore, the lessee has the right to ask the court to reduce the rental if the market price of the property falls.

-Perpetual lessee's right of cancellation (article 251): If no profit can be derived from the immovable for 3 years on account of force majeure, or damage to part of the immovable, the perpetual lessee may cancel the perpetual lease.

-Assignment: perpetual leases may be transferred or used for sale, exchange, gift, or pledge with or without fee, as long as there is an agreement. On the other hand, the lessee may sub-lease the immovable property and create a succession (transfer of rights and obligations on the immovable property to the heirs).

Upon termination of a perpetual lease, the lessee must return the immovable to the lessor. If the immovable has been destroyed or fundamentally changed its nature, the lessee must restore the immovable to its original condition (article 254). Moreover, the lessor shall acquire ownership over any improvements and structures installed on the immovable by the perpetual lessee without having to pay compensation to the perpetual lessee unless both parties agree on compensation in the contract. Generally, people have known "long-term lease" than "perpetual lease" which has the same meaning and is mostly used in Land Law 2001. But now, "long-term lease" has been replaced by "perpetual lease", according to Civil Code 2007.

Only land or building with the hard title can be subject to perpetual lease, otherwise, the lease cannot be registered.

*Learnt from: Khmer Times (11<sup>th</sup> December, 2022)*

**Cambodia's China dependence deepens as first expressway opens**



*A flag bearing China Communications Construction's name in Chinese flutters near a toll booth by Phnom Penh in November.*

After three years of Chinese-led construction work, Cambodia's very first toll expressway has opened for business, the project symbolizing the deepening economic ties between the Southeast Asian nation and Beijing. Costing around \$2 billion to construct, the expressway stretches 190 kilometers between Phnom Penh, the capital, and the port city of Sihanoukville. The toll road is targeted toward commercial drivers who place a premium on transport time and safety. The expressway cuts the time of the trip between the cities from five hours to two. That convenience comes at a cost. The fee is currently set at \$12 for conventional vehicles and \$60 for large trucks. Those prices suggest that the operator, the Chinese state-owned China Road and Bridge Corporation (CRBC), hopes to make a profit off the road relatively quickly. CRBE was also responsible for the construction of the expressway. China and Cambodia first signed a deal for the road in 2018 under the build-operate-transfer model. Under the agreement, CRBE will collect tolls for five decades, before transferring ownership of the road to Cambodia. In return, Cambodia believed to be responsible for virtually none of the cost. CRBE is headquartered in Beijing and has offices in about 60 countries and territories. Although CRBC's earnings are unclear, its parent entity, The China

Communications Construction Group (CCCC), recorded 842.8 billion yuan (\$119.9 billion) in group sales last year. CCCC is the third-ranked contractor in the world in terms of overseas revenue, according to Engineering News-Record, a U.S construction industry publication. The group serves as one of the biggest players in the Belt and Road Initiative, Chinese President Xi Jinping's signature foreign policy that aims to deepen China's trade and commerce links with the rest of the world. The exact site of the road remained unclear up until the start of the project in 2019. CRBC ultimately completed the highway ahead of schedule. For Cambodia, the expressway is expected to drive investment in the country. Phnom Penh and Sihanoukville are already connected by National Highway 4, but congestion on the two-lane road has worsened each year. Trucks frequently use the opposite lane to pass vehicles, a practice that has haunted drivers. The new expressway is safer, with two lanes in each direction separated by a central median. As foreign investment into neighboring Myanmar has ebbed over the past few years amid the country's political instability, Cambodia has enjoyed an opposite trend. It is said the opening of the new expressway and the port work will spur new foreign investment. Sihanoukville is home to the Ream Naval Base, which is undergoing a China-funded expansion and could be used by the Chinese military as it seeks to strengthen its military presence in the South China Sea. Chinese entities have also ramped up investment in hotels and casinos in Sihanoukville. In its overseas infrastructure push, Beijing has faced accusations of saddling countries with debt without considering their ability to repay. The build-operate-transfer model may mitigate such scrutiny, but in Cambodia's case it effectively gives China control of a key road, adding to its already sizable influence—China contributed more than 60% of Cambodia's foreign direct investment last year. Leaving the operation of key infrastructure in the hands of a foreign company also comes with the risk that it could be cut off. Though drivers could be directed toward other routes in such a scenario, Cambodia will likely consider this possibility as it weighs similar investment models

for essential utilities such as electricity. The build-operate-transfer model is expected to see broader use in frontier markets; CRBC adopted the approach for an expressway in Kenya that opened for traffic on a trial basis in May.

*Learnt from: Khmer Times (13<sup>th</sup> December, 2022)*