

## **What's Happening in Cambodia Market & Valuation**

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### **Cambodia's real estate landscape ascends with growth, opportunities and challenges**

カンボジアは、2011年から2020年まで年平均7.1%という高い経済成長を遂げ、同国の不動産市場はダイナミックに成長を遂げてきた。この成長を促進してきた主な要因は、貧困削減政策に成功してきたことや、インフラの改善、海外からの投資増大などだ、と報告されている。

*Learnt from: Asia Property Awards (5<sup>th</sup> December, 2023)*

### **Buying condos off-plan in Sihanoukville- What to know**

シアヌークビル地域に定住することは、投資家やカンボジア人にとって、熱帯での海辺ライフスタイルという夢を間違いなく提供している。計画中のコンドミニアムとは、建設工事完了前または建設中に販売されている物件のことだが、この記事では、シアヌークビル不動産市場についての興味深いポイントが列挙されている。

*Learnt from: Khmer Times(13<sup>th</sup> December, 2023)*

### **Cambodia's Economy remains robust in 2023 despite weakening global demand, slow down in real estate**

カンボジアの経済成長は、不動産に対する世界的な需要低迷と減速にもかかわらず、2023年も堅調に推移した。こうした中、2024年のカンボジア経済は成長率約6.6%、GDPは351億6,000万米ドルに増加すると予測されている。

*Learnt from: Xin Hua Net News (19<sup>th</sup> December, 2023)*

### **Real Estate Trends Past, Present & Future - 2023 and Beyond**

金利上昇は、地域の商業用不動産に対して影響を及ぼすと言われているものの、IMFは2004年のカンボジア経済を東南アジアで最も急成長すると予測しており、インフレ率も2023年、2024年共に3%に抑えられると予想している。

*Learnt from: Khmer Times (20<sup>th</sup> December, 2023)*

**Cambodia’s real estate landscape ascends with growth, opportunities and challenges**



*Cambodia offers diverse investment opportunities.*

Cambodia’s robust economic growth, averaging 7.1 percent annually from 2011 to 2020, has propelled the nation into a dynamic real estate market. It is reported that key factors driving this growth include successful poverty reduction, improved infrastructure, and heightened foreign investment. The country offers diverse investment opportunities, with condominiums in cities like Phnom Penh, Siem Reap and Sihanoukville presenting a range from affordable units to luxurious penthouses. Land, however, remains the most sought-after investment, constituting 36.6 percent of total preferences in 2023, driven by its scarcity, versatility, and appreciation potential. According to Cambodia investment review, the real estate market’s resilience is further emphasised by significant construction permits issued in 2023, totaling 1,463 projects with an area of 5,000,000 sqm and an investment exceeding USD 22,270 million, marking a 138 percent increase from the same period in 2022. Notably, industry experts, including Khnha Mann Chandy, highlight the high returns of land investments, ranging from eight percent to 15 percent annually. Foreign investors eyeing Cambodia encounter certain restrictions, as land ownership is limited to Khmer nationals. However, the 2010 law permits foreigners to own buildings with a “Strata Title”, primarily applicable to new apartment buildings. Additionally, recent reforms under the 2021 Investment Law aim to attract more foreign capital by introducing “smart

incentives” and mandatory “after-case-services.” These incentives encompass VAT exemptions, tax rebates, and sector-specific benefits, contributing to Cambodia’s appeal as an investment destination. The efforts to boost the real estate sector include allowing foreigners to use Cambodian representatives for property purchases. While land titles list a Cambodian owner, separate contracts protect foreign investors. This move, along with the easing of loan conditions by the government and the National Bank of Cambodia, aims to revitalise the real estate market amid challenges posed by the COVID-19 pandemic. However, it is noted the concerns persist regarding potential sovereignty issues, human rights abuses, and challenges related to corruption and ineffective state institutions. Despite these challenges related to corruption and ineffective state institutions. Despite these challenges, Cambodia’s comprehensive strategy positions itself as an increasingly attractive destination for global investors looking to engage in a variety of sectors, including high-tech industries and innovation.

*Learnt from: Asia Property Awards (5<sup>th</sup> December, 2023)*

**Buying condos off-plan in Sihanoukville - What to know**



Settling in the region obviously offers the dream of a tropical seaside lifestyle that is still enviable for most retirees, remote workers, long-term expats, and appeals to investors and Cambodians. Off-plan condos are a type of property which is sold before construction has been completed, or while construction is still in progress- but is there much supply and demand in the market in Sihanoukville.

And what should buyers be considering when looking at an off-plan property?

### **Can foreigners buy a property in Sihanoukville?**

First of all, Cambodia's favourable foreign property ownership laws continue to remain a strong drawcard for property buyers and investors who can acquire freehold condominiums which can then be rented or sold at their discretion. Foreign or expat buyers can own a strata-title condominium outright with some minimal caveats (such as not being on the ground floor) which we have covered previously. It also means there is investment potential and resale potential as the condo unit, for example, can be sold and/or the property title can be transferred to another non-Cambodian at a later date. This is why in all recent Cambodian property surveys, condos remain the most in-demand property type among foreign buyers in the Kingdom. With the advancement of the Trust Laws, there is rising interest in land ownership too through that mechanism. Buyers should also be aware of the 19th Cambodian Government-Private Sector Forum (G-PSF) announcements of several tax updates relevant to the Cambodian property sector.

### **Buying A Condo In Sihanoukville – What To Consider**

Purchasing off-plan properties has seen a dip in interest in Cambodia and buyers are more confident in purchasing in a condominium that is complete or nearing completion – in fact nearly twice as many preferred to invest in a condo that was ready to move into over an unfinished condo development. Keep in mind, that one of the key trends we have highlighted in the Cambodian property market post-pandemic, is that due diligence is still required and sourcing developments from reliable developers with a good track record is paramount. There have been fewer buyers, or interest, in buying off-plan due to potential construction delays, or the very real fear (as Sihanoukville highlighted) of cases where a project might not be completed. For context, many of the unfinished buildings in the city are casinos

and larger developments that never materialised rather than condo developments. Currently, the number of off-plan properties available on the market in the southern coastal city of Sihanoukville is limited to only a few developments, and those properties that are available are mainly villas and borey properties will be less sought after by foreigners due to the restrictions of foreigners legally owning the hard titles.

### **Financing Options For Your Condo Purchase in Cambodia**

As is the case for anywhere else in the Kingdom of Cambodia, there are different financing options available at condo developments for sale. Most often, bank mortgages and loans are exclusively available to Cambodian citizens unless there is some sort of collateral a foreigner can provide to the lender, such as local property titles or other reliable assets. From affordable condos to luxury condo developments, foreign buyers will likely need the finances to buy the condo outright due to the difficulties in obtaining a mortgage from a bank in Cambodia, whereas local buyers will have a wider choice of financing options through Cambodian lenders. In the case of off-plan properties, property and condo developers in Cambodia traditionally offer varying financing schemes to make buying the property easier. Payment options for purchasing property in the Kingdom of Cambodia for foreigners, might include one of the following:

- Monthly Installment Payments – These allow for regular payments over a set period of time to make the payment more manageable for property buyers.
- Full Payments – This usually requires the full amount for a property to be paid within 30 days of signing the sales agreement.
- Bank Financing – Financing provided by a traditional lending institution such as a bank or credit union via a mortgage or loan (rare for foreigners to be eligible)

### **Sihanoukville Construction Sector**

It is reported that 1069 high-rise buildings are being built or in the process of being developed in the city. Nearly half (475 buildings) are completed but a further third (364 temporary buildings) were halted due to paused investments. To address this issue of halted projects, the government announced a long-term and phased package of measures to help build investment confidence and short-term market demand. It is said that new developers won't necessarily take on unfinished projects in the city due to a range of reasons which could be design or location, for example. The benefits of new developments are a commitment by the developer on finishing the project and also offering more attractive incentives, returns, and packages to buyers at representative market prices.

### Popular Property Areas In Sihanoukville

This is a key consideration when looking at investing in a condo in Sihanoukville as well as the mid to long-term goals and returns. There are some key districts or sangkats in the city:

1. Sangkat 1: A busy district which is also the location of the Sihanoukville autonomous port and 18 km away from the airport.
2. Sangkat 2: A residential area which also offers upmarket sea-view condos and local malls.
3. Sangkat 4: A sought-after residential district with beachfront condos and the popular Ochheuteal and Serendipity beaches.
4. Sangkat Bei: One of the condo-led areas with a mix of restaurants and malls.
5. Sangkat Buon: Well-known for its pristine beachfront and accompanying apartments, villas, and condos

In terms of sizes, condos and apartments in Sihanoukville have an average floor area of approximately 58 sqm with the larger condos being 80+ sqm. On the opportunities in the rental yields from the property market. Knowles sees Sihanoukville as offering rental yields in the range of 8-10 per cent due to the low cost of living and high demand for rental properties in the city.

Property developers are also now offering greater discounts on the remaining property stocks in Sihanoukville with some providing interest-free developer loans as well as increased agent commission incentives. With affordable condo units available from around \$45-50K and rising to over a million dollars for penthouse suites at in-demand locations, the median property price is around \$120,000 in Sihanoukville – so potential buyers need to have a clear understanding of their strategy.

*Learnt from: Khmer Times (13th December, 2023)*

### **Cambodia's Economy remains robust in 2023 despite weakening global demand, slowdown in real estate**



*Garment workers make clothes at a factory in Phnom Penh, Cambodia.*

Cambodian government is working to improve business environment and upgrade infrastructure and logistics in efforts to accelerate growth while ensuring economic resilience and sustainability. Cambodia's economic growth remained strong in 2023 despite weakening global demand and a slowdown in real estate. It is recorded that the economy was expected to grow by 5.6 percent in 2023, pushing up the Southeast Asian country's gross domestic product (GDP) to 32.17 billion US dollars. For 2024, Cambodia's economy is forecast to achieve a growth rate of around 6.6 percent, which will increase the GDP to 35.16 billion US dollars. The kingdom's GDP per capita was estimated at 1,917 dollars in 2023 and would rise further to 2,071 dollars in 2024. Cambodia's economy mainly relies on garment, footwear, and travel goods exports, construction and real estate,

tourism and agriculture. In 2024, the industrial sector, mainly garment and construction, is predicted to surge by 8.5 percent, while the service sector, mainly tourism, transport, telecom, trade and real estate, is expected to increase by 6.9 percent, and agriculture is projected to rise by 1.1 percent. The country's inflation is forecasted at 2.5 percent in 2024, the same rate as that of 2023, if the price of oil on the international market returns to its normalcy. The country's economy had done extremely well in the pre-COVID-19 era, with an economic growth of 7.1 percent in 2019. According to the World Bank, the country's economic growth is projected at 5.4 percent in 2023 and 5.8 percent in 2024, on anticipated increases in infrastructure investment and benefits from regional trade agreements. In the short terms, overlapping negative shocks from the pandemic, the Russia-Ukraine conflict, and high international interest rates are expected to continue to constrain growth adding the investments in merchandise manufacturing, including garments, and exports of finished goods have both weakened, reflecting lower global demand. Looking ahead, economic growth could further be affected by weakening global demand or renewed oil and food price shocks. Domestically, rushing household debt and domestic credit in the real estate sector remains risks.

*Learnt from: Xin Hua Net News (19<sup>th</sup> December, 2023)*

## **Real Estate Trends Past, Present & Future - 2023 and Beyond**



The impact of interest rate hikes on commercial real estate in the region. As a result of the myriad of knock-on effects on businesses, commercial real estate transactions are declining with traditional sectors such as commercial office buildings being out of favour with developers who are pivoting capital to alternatives. Overall, the outlook is more optimistic for a recovery once markets stabilise from the early years post-pandemic. The IMF expects Cambodia to be the fastest-growing economy in Southeast Asia in 2024, with inflation contained at 3 percent in both 2023 and 2024.

### **How rising interest rates have disrupted Asia Pacific Real Estate**

Central banks across the globe initiated unprecedented interest rate hikes in 2022, marking an end to over a decade of ultra-low rates. These changes in the cost of capital are having wide-ranging impacts on real estate markets across Asia and the globe generally. According to the National Bank of Cambodia (NBC), falling credit growth and higher borrowing costs brought on by heightened interest rates across the globe may diminish domestic investment.

- The average loan interest rates in Cambodia were up by 14 per cent (riel) and 11.66 per cent (USD) between January and June 2023.
- Fixed-term loan interest rates during 2023 ranged on average from between 7.5% to 10%.

In October 2023, the World Bank also heeded caution, calling for continuous monitoring for signs

of overheating in the real estate credit market in Cambodia. In response to these higher rates, banks have tightened both commercial and development lending. Along with the current market conditions, this is having the effect of reducing the number of new development projects which are likely to continue at least into H1, 2024. A reduction in the pipeline of new supply combined with a rapidly growing economy in Cambodia will mean the excess supply in the market begins to be absorbed in 2024, and further into 2025, which will help correct the current supply vs demand imbalance. In respect of Cambodia's rapidly growing economy, there remains an overall positive outlook for the economy, with estimates unanimously above 5 per cent GDP growth from the leading financial institutions for 2023, and above 6 per cent for 2024 and beyond. Locally, there has been a noticeable slowdown in the pace of land sales in 2023. The key reasons include large investors (domestic and international) holding back, in addition to the financial institutions reducing lending with tightening financing conditions. These cooling effects will help to restrain and reset land prices after speculation within the land market began to drive and rapidly increase prices in the Kingdom between 2016 – 2019. Currently, the Ministry of Land Management, Urban Planning and Construction (MLMUPC) confirmed licenses have been granted to 2,600 construction projects with total investments of just under USD \$5 billion in the first three quarters of 2023. A further positive was that early indicators of construction investment might even be heating over the course of Q4 2023.

### **Traditional Investment Strategies Not As Effective**

Office and retail assets that previously dominated property investment strategies are now out of favour, suggested the trends report. This is because fundamentals such as high vacancies and structural concerns around long-term demand have deterred investors. In the Asia-Pacific region, the traditional asset classes of office and retail are seen as less sought after by investors. One example was that office deals decreased by as much as 50% year-on-year in the first three quarters of 2023. In

Cambodia, the oversupply situation within the retail and office sectors has been widely reported.

- Occupancy rates in commercial office buildings within Phnom Penh are thought to have dropped from 85% to 60%, and for modern retail developments, from 70% to circa 63%.
- The increased adoption of technology across work-from-home for office and online shopping, and delivery services in the retail sector, have also contributed to weakened demand.

### **Outlook Remains Cautiously Optimistic For Real Estate**

The report suggested that the real estate market's reset process remains incomplete but recovery is expected once new norms stabilise. Emerging countries like Cambodia could benefit as the trend for foreign investors to diversify manufacturing bases away from China has accelerated. The real estate sector in the Kingdom has seen growth in Trust investments, and the key property announcements from Cambodia's G-PSF 2023 showed that the government is trying to put in measures to help protect the sector and reassure investors. The recently published FDI Standouts Watchlist also ranked Cambodia as having the strongest investment momentum into 2024 using data of nations which are entering the new year with a strong macroeconomic and FDI momentum. The combined incentives such as government support for foreign investment, a young and available workforce and investment into the supply chain infrastructure, all bode well for the medium to long -term. Ultimately, Cambodia is still viewed as an attractive target for foreign and local developers, as well as investors.

*Learnt from: Khmer Times (20<sup>th</sup> December, 2023)*