EXECUTIVE SUMMARY

Being as an emerging country in South East Asia, Cambodia is critical points for investors looking to grab potential returns. From the high level of foreign direct investment, the economy is able to have well performance in the last couple years including the garment sector, tourisms, construction and agriculture in an average growth rate around 7%, according to the figure from Ministry of Economy and Finance. Among those, this report significantly illustrates the current development of construction and real estate which had been severely affected by the world financial crisis in 2008. Of course, this sector started to recover and growth dramatically in the current years. Data from the Ministry of Land Management, Urbanization and Construction claimed the investment in construction reached US$2.11 billion in 2012, 71% higher compared to the previous years. However, as the growth rate is quite higher than expected, insiders of the real estate firm unveiled the current situation is to be oversupply since there is less demand from the market, making the sector to be stable for a while. Even the fact of stabilizing, the prospect of the market remains optimistic since there are a number factors fuelling to the rise of the sector.
OVERVIEW OF CONSTRUCTION AND REAL ESTATE SECTOR

In parallel with the growth of global economy, Cambodia economy has perform well, enjoying growth of 7.2%, one of the highest rate for emerging countries. Specifically, according to the Ministry of Economy and Finance, the macroeconomic sectors are all in the significant growth rate including 9.2% for the garment sector, 4.3% of agriculture and 6% in construction sector.

One of the pillar boosting domestic economy, the construction and real estate, after the sluggish point in 2008 and 2009 from the global recession, attracted a number of investors to register their investment. The figures illustrate the green signal, growing significantly. Pointing out from many analysts, the growth of the current days is from demand driving, rather than the 2007-2008 when the speculation driven the growth. Consequently, the high-rise building, skyscraper, large housing complex (Borey) are all spreading like the mushroom both in the commercial city and the suburb areas.

Figure 01: Construction Industry at Current Market Price

The top ten countries investing in this sector including South Korea, China, Britain, Thailand, Russia, Japan, Malaysia, Taiwan, India and Vietnam.

Source: ADB Key Country Indicators for Asia and Pacific 2013
In the first eight months of the year, this sector received a total investment of US$2.14 billion, an increase of 40% compared to the same period last year.

From January to August this year, the Ministry had issued construction licenses to 1,100 projects throughout the country.

CONSTRUCTION IN DETAIL

- **Trend of Construction Projects:** Of course, the construction sector is obviously growing, as we can tell from the Phnom Penh’s skyscraper building and large housing complex. From the global financial crisis, this sub-sector was badly affected since most of the projects are from foreign investment, and the fear of crisis encourages them to withdraw their investment project, making such a sluggish fall. Then, the investment started to recover, making such a very significant improvement. According to the statistic from Ministry of Land Management, Urban Planning and Construction, the investment in construction reached US$2.11 billion in 2012, 71% higher compared to the year 2011. This rising contributed from the national and international developers.

  **Figure 02:** Construction Value and Project

  ![Construction Project and Value](image)

  Source: Ministry of Land Management, Urban Planning and Construction

In addition, the investment project has decreased gradually from 2,149 in 2010 to 1,694 projects in 2012. To this extend, director general of Construction Department at the Ministry pointed out this decreasing was not from a lower investment, but it was from the bigger of the project, a sign the project are more at the higher end market.

- **Loan to Construction Sector:** After the economic recession in 2009, Cambodia construction started to rebound with positive rate. Commercial lending to the construction sector has been rising gradually. From 2008 to 2010, there was a minor percentage changes since the figure were standing at around US$200 million. Then, the robust grew commenced. In 2012, Total credit giving to the sector was
On May 2013, Ministry of Land, Construction and Urbanization and Cambodia Constructor Association signed a private-public sector memorandum to share information about material quality, construction equipment and the labor market in order to boost the construction market.

Around US$446 million, an increase of 36% to the year of 2011. As reported, Cambodia experienced a construction boom, particularly in Phnom Penh, stimulated by foreign investment. This rising is obviously contributed from the increasing demand of credit, the rise of living standard of the citizen fuelled by the growth of economy.

**Figure 03: Credit to Construction Sector**

Credit to Construction Sector (Million USD)

Source: NBC Supervision Report 2012

- **Import of Construction Materials:** Witnesses to the rise of construction sector, the import of construction material also gained from year to year. According to the data from Ministry of Commerce, the import of construction material surge up dramatically in 2011 and 2012. In 2011, the value of imported reached US$560 million, an increase of 128% compared to the previous year. To 2012, the gain was only 16% to US$655 million. In the first half of 2013, the import of goods for construction sector totaled 439,000 tons, valued at US$226 million, an increase of 7% compared to the corresponding period last year.

**Figure 04: Construction Material Import from 2005-2013**

Imported of Construction Material (US$ Million)

Source: Ministry Of Commerce
REAL ESTATE IN DETAIL

- **Loan to Real Estate:** In addition to construction, after a few years of contraction, the commercial lending to the real estate activities also expands eventually. In 2011, US$141 million was lent into this sub sector and inflate to US$ 183 million in 2012, 29% growth accordingly. This escalation reflected to the rise in the growth of macroeconomic sector, construction as well as the imported of construction material. Noted this real estate credit refer to the lending for company or individual in search for real estate investing for higher return, excluded the mortgage loan, rental and operating leasing activities.

  Figure 05: Credit to Real Estate

![Credit to Real Estate (US$ Million)](chart.png)

Source: NBC Supervision Report 2012

- **The Rise of Satellite City and Large Housing Complex:** From a high digit of economic growth, and to fulfill rising demand of the real estate from an increasing number of populations, a number of investors bring billion of dollar to make up the sub city outside the main city, as the satellite. Encourage by the rising price of house and land in the main cities, many dwellers also looks for satellite city as their choices since the plan of the satellite city will provides the habitant a wide range living experience including the shopping mall, the sport center or the office center...etc.

From this economic trend, Camko City, the largest investment project from South Korea worth around US$2 billion on 120 hectares of land, has made an announcement in the last several months to sales some of its condos. Besides the Camko, there are five other satellite projects including the US$600 million Grand Phnom Penh International City, the US$2 billion Malaysian-backed Sunway City, US$300 milion Boeung Snor Satellite City, Diamond Island City and the current initiate Korean BooYoung Town on the Russian Boulevard worth US$1.1 billion.
In addition to the satellite city, the large housing complex (Borey) also increases very significantly. Just only at the Phnom Penh cities, there are more 10 tens Borey especially around the suburb of the city. As reported, most of the residential buildings are from the foreign direct investment. The two significant housing complex are Borey Peng Huot and Borey New World. According to the 2013 Real Estate Forecast, the price of real estate in the region are predicted to stay in the upward trend, not just because of the rising price of commodities, but from the growth expectation in the underlying demand from end-users, occupiers and investors.

- **Office Complex, Hotel Condominium and Retail Market:** From the robust and sound economic growth, the supply and demand of the office space illustrate the substantial growth. Currently, there are more than 20 office spaces for rents and those offices are classified as grade A, B and C. At the same time, the price are set variously depends on its size and location. Earlier of 2012, the supply of office space had surpassed demand in Phnom Penh, adding the pressure to an already shrinking rental market leading the rental fee to deflate sharply. However, for 2013, according to a global consultants firm CBRE, there are more international companies entering Cambodia, making more demand with the slow release of new office development, so the office space gained a better position. The CBRE report stated that the supply for office space at the entire Phnom Penh areas stood at 190,000 sq.m in 2012, gain from 160,000 sq.m in 2011, and the supply is expected to increase in total of 27% upon the end of 2013 with the finish of many constructions.

In addition to the office space, the rise of condominium is also significantly seen, especially in the district of Beoung Keng Kong. Currently, more and more condominium is being built around the district, completely changing the face of Phnom Penh. However, from the Construction and Property Report on September-October 2013, sales of condominiums grew only slightly in the first half of the year compared to the corresponding period last year, despite the increasing number of foreign investors. Additionally, even condo is quite popular for foreigners; the market survey from the property evaluator pointed out the supply of condos is excess demand, and so the either the price of condos for sales or the rental service also remains stabilize.

For Retail market, the growth is also noticeable. Besides the existing one, the Japanese AEON mall projects invested by Japanese is expected to complete at the beginning of 2014, and will become the largest shopping mall in Cambodia. The Phnom Penh Post also reported the Young Commercial located on the Reussey Keo district along National Road Number 6 also plan to inaugurate at this month, marking...
another rise of shopping mall at the other sides of Phnom Penh. Even the announcement of Malaysian Parkson shopping mall and the Underground mall City Walk of Naga World also schedules to open next year. This increasing is responded to the change of consumer behaviors toward the modern shopping mall.

OUTLOOK OF CONSTRUCTION AND REAL ESTATE

Beside the data from many sources all pointing positive growth for the sector, the government also opens the door wider welcoming foreign investments and business coming to the playground of Cambodia; to exemplify, foreigners are now allowed to own apartments and condominium units, but not the land under the new foreign ownership law approved in 2010. Therefore, the outlook remains optimism. At the same time, in the next couple years that Cambodia will be integrated into regional economy of ASEAN, it is recognized as potential source of benefit to the construction and real estate sector, namely the whole economy.

However, as the reference to the industry insiders, the current outlook is looked to be oversupply due to a higher number of construction buildings, pushing the price to be in a stable rate. Therefore, the growth rate in the next few years could be significant, but not as high as the current year, since there are many construction will have been finished, and to keep looking for higher demand either from local and foreigner citizens.
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