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Openness to Trade Is Transforming Cambodia's Capital

By Sonia Kolesnikov-Jessop

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PHNOM PENH: The three-story showroom for Gold Tower 42 is as imposing as the gold-tinted residential structure that, once it is completed, will dominate Phnom Penh's skyline.

A security guard greets a visitor's car and ushers the guest into a large reception area, worthy of a nice hotel. Before going up the carpeted grand staircase, the guest is politely asked to take off his shoes and don a pair of comfortable slippers.

Once upstairs, a saleswoman stands in front of a large scale model and talks with animation about the features of Cambodia's first residential tower, including the golf practice range, the karaoke lounge and the library, before leading the visitor through the three model apartments on the third floor.

It looks as if no expense has been spared on the showroom - but then the developer, Yon Woo of South Korea, is selling a luxury dream to the few members of the local elite and foreign community eager to test the waters of a property market that appears to be doing surprisingly well, despite the ever-present reminders of Cambodia's Third World poverty.

Commercial spots, available on YouTube, have been stressing the luxury of the project. Agents say buyers have been attracted by features like the high-tech security system, home automation technology, walk-in closets and fully fitted kitchen. And while the apartments would not quite match up to high-end places in Singapore or Hong Kong, they are luxurious by Cambodian standards.

But then they are not as expensive as apartments in those Asian cities either. Unit size varies from 153 square meters, or 1,647 square feet, for a three-bedroom apartment to 336 square meters for a five-bedroom, with prices ranging from \$460,000 to \$1.6 million. (Cambodia's official currency is the riel but the U.S. dollar is widely accepted and real estate is routinely valued in dollars.)

Nov Ratana, a sales manager for Yon Woo Cambodia, says 60 percent of the Gold Tower 42's 360 residential units have been sold, many of them to foreigners, mainly Koreans and Chinese.

When the \$240 million, 42-story development is completed in 2011, it will offer sweeping views of Phnom Penh toward the capital's bustling riverfront. But it will not stand out as the city's only skyscraper; several other high-rise developments also are planned or already are being built.

In mid-June, ground-breaking began on an even taller building, the 52-story International Finance Complex. This \$1 billion, 737,000-square-meter project will include a main office tower surrounded by several smaller glass-and-steel structures housing 275 serviced apartments, 1,064 apartments and even a small international school.

Other projects being developed include the 33-story De Castle Royal Condominium, the 31-story River Palace 31 and the Phnom Penh Sun Wah International Financial Center, a mixed-use development of offices, a five-star hotel, shopping mall and three residential blocks.

While the towers have provoked some controversy - they will radically change the profile of this low-rise city and add some flashes of modern architecture to its faded colonial elegance - they also are being touted as a symbol of the country's speedy growth. Cambodia's economy has increased at an annual average of 11 percent over the past three years as the country has climbed back from decades of political instability.

Foreign investment, especially from South Korea and other countries in North Asia, has been key to this recovery, surging to 8 percent of GDP in 2007 from less than 1 percent in 2004.

Most of the new construction projects are headed by Korean construction and investment companies. The biggest foreign direct investment to date - \$2 billion - is being made by World City of South Korea, for Camko City, being built on a 119-hectare, or 294-acre, site on the northwestern outskirts of Phnom Penh.

The project, started in 2005 and scheduled to be completed in 2018, will include residential, commercial and public structures.

Opening the country to foreign trade and attracting tourists, especially to the temples of Angkor Wat, has supported the expansion and even produced the beginnings of a middle class.

As a result, property prices have experienced their own boom in recent years. Charles Villar, general manager at Bonna Realty Group, the largest real estate agency in Cambodia, estimates that property prices in Phnom Penh rose between 50 percent and 80 percent in 2007 and between 80 and 100 percent so far this year, depending on location. Land prices in the city center have skyrocketed this year to more than \$3,000 per square meter from about \$500 a square meter in 2003.

Meanwhile, rental prices have increased 20 percent to 40 percent over the past year, Villar said. A large villa with five to seven bedrooms in a good location will rent for about \$5,000 a month, while a two-bedroom place will average \$1,300 to \$1,500, depending on location.

Despite the sharp increases, prices still compare favorably with those in Bangkok, where a four-bedroom villa would cost more than 200,000 bhat, or about \$6,000, a month. And the Cambodian sites are attracting plenty of speculative interest from foreign buyers, mostly from within the region.

Bretton Sciaroni, a senior partner at the law firm of Sciaroni & Associates in Phnom Penh, says foreigners still cannot buy land, but they can buy leasehold properties - typically a 99-year lease or a 70-year lease with an option to renew for another 70 years. The latter formula "was found in the 1994 investment law and, although it dropped out of the law when it was amended, the formula is still used," he said.

There are rumors that the laws will be changed to allow foreigners to buy land outright but that is unlikely, Sciaroni added. "If anything, earlier this year, the prime minister made it clear in various statements that foreigners will not be allowed to hold property freehold. For this to change, not only would laws have to be amended, but the Constitution as well," he said. "So we do not expect the law to change anytime in the near future."