

Companies, People, Ideas

Gold Coast?

Ron Gluckman 11.24.08

Martin Kaye has a name for the barren beaches and empty tropical islands that line the Cambodian and western Vietnamese coast. He touts this 125-mile stretch as the Indochine Riviera and envisions a sun-drenched playground for jet-setters and holidaymakers from around the world. "Just look across the border in Thailand, at Phuket and Ko Samui," he says. "It's not a question of if, but when." The Hong Kong real estate investor plans on being right in the middle of all this construction: He could be the Donald Trump of Asia's next great resort strip.

The Next Phuket?

The Cambodian and western Vietnamese coast is ripe for development.



Kaye has lots of company. Investment groups from Malaysia, Hong Kong, Russia and France have raced to stake claims in what has become a gold rush. Over the past two years nearly all of Cambodia's five dozen islands have been leased, and much of the shoreline has been carved up for huge concessions. Property values have boomed around Kep, a seaside destination for the French through the 1960s, before the rise of the Khmer Rouge riddled the charming seaside villas with bullet holes that are still visible. Bigger gains are reported around Sihanoukville, the site of several beach resorts and the country's main port, after a \$30 million revamp of the airport two years ago. "That was the trigger to all the growth," says Matthew Rendall, partner at the Phnom Penh law firm of Sciaroni & Associates and the country's leading land lawyer. "After that, the entire coast really took off."

Not that you could tell by looking around. Sihanoukville remains a grungy coastal town with a slew of casinos and only one high-end hotel. Yet billboards heralding planned villa projects run for miles up and down the coast.

In the past year Kaye has won the right to build vast resort communities on the two biggest chunks of this coast, though he also hasn't built anything yet. But in the Ho Chi Minh City office of Kaye's company, the Millennium Group, there are lots of plans being drawn up. Don Taylor, who designed many of Phuket's resorts, shows off the master plan for Dai Beach: 1,500 condominiums, 700 luxury villas, two golf courses, 20 hotels and resorts, a marina and lots of shops, all sprawling across 1,335 acres at the northern end of Phu Quoc. Part of Vietnam, Phu Quoc is the largest island in the Gulf of Thailand. Kaye sealed the deal for the project in April after years of discussion and plenty of local liquor consumed with the island's village chiefs.

At the time, investors were focused on Phu Quoc after Vietnam unveiled new policies to promote foreign land ownership and promised to expand the airport for international use. But the expansion has been delayed, along with many of the plans for resorts. "Until the infrastructure is in place, especially the new airport, I am happy to sit," says John Goodyear, who runs a boutique resort in Tasmania and has leased land for another on Phu Quoc. Indeed, with the recent slowing of the Vietnamese economy, money is now

moving across the border into Cambodia, says Bernard Lang, of First Indochina Group, a Vietnam consultancy. "Cambodia offers a fantastic investment environment."

Kaye's other site is in Cambodia, so he has horses in both races. He found it quite by accident. Parked on a deserted beach in Phu Quoc in October of last year, he was enjoying a surfing break after winning the initial agreement for the land. But like any Hong Kong wheeler-dealer on holiday, he couldn't resist thinking ahead to the next deal. Soon he was browsing the Web. Using Google Earth, he spied an island only 40 miles away, big as Hong Kong island, but a place he'd never heard of or seen on maps. Chartering a helicopter, Kaye was soon circling above Koh Rung, Cambodia's biggest island, his eyes bugging out of his head. Even now his pulse accelerates as he describes how he soaked up the sight of Koh Rung's emerald hills, teeming jungle and mile after mile of crystalline white beaches. "This was uncharted territory," he recalls. "Totally pristine."

But not for long. In September Kaye won a commitment from the Cambodian government for a project that makes his gargantuan Phu Quoc development seem minuscule. He now controls the entire island and plans luxury resorts by the score, an airport, parks, even a university. The total investment could top \$12 billion and play out over decades. "This is the chance to do Phuket or Ko Samui all over again, but do it right this time," says Kaye, sweating profusely between cigarette breaks at his office in Phnom Penh. "This is a chance to do something truly special."

Kaye is scurrying to find \$200 million in financing to start on Koh Rung, but he's running headfirst into the global credit crunch. "Real estate debt financing has dried up," he says. He's focusing his fundraising in the Middle East, but it's proving a tough slog. His Cambodian partner for the project, Phnom Penh tycoon Kith Meng, says there's interest in Kuwait, Dubai and Qatar, and Kaye says there's also interest from Chinese and Japanese investors and British funds. "People will come to Cambodia because this is where you can double, even triple, your money," says Kith, whose Royal Group is involved in hotels, telecoms, banking and development.

Kaye says the financial crisis could set the project back by six to nine months. For now he expects to start clearing the site by the third quarter of next year, "but if it drifts into 2010, that's no problem; this is a 20-year project and we want to do it right." He doesn't think the crisis will have a long-term impact on his two Indochine projects: "Tourism growth has been phenomenal, and that will continue."

The 41-year-old Kaye comes from a real estate family. Born in Hong Kong, he grew up yachting: "That where the concept of mixing real estate and my love of sailing really started me with resorts," he says. After climbing the ladder as a young sales agent, he set off on his own in 1999, forming his Hong Kong firm, and became involved in several projects on Phuket.

As Kaye gears up to develop his islands, other projects are springing up along the coast. In September the Sokha Hotel Co., which runs Sihanoukville's only five-star hotel, the Sokha Beach Hotel, broke ground on a 500-room resort on the town's Ochheuteal Beach. Sokha is also behind the \$1 billion renovation of the Bokor Mountain Lodge, which will add a pair of golf courses and five-star resorts to an old French colonial hill station overlooking the coast.

Seng Enterprises, a Cambodian construction and real estate company, plans a 2,500-unit development along four miles of coastline that would double the size of Kep, says financial director Vantha Seng. Features would include Cambodia's first light-rail system and underground roads to ease congestion. That's not yet a worry because there are no cars; in fact, no land, either. The entire project is offshore, on 1,000 acres of landfill that has yet to be poured. Still, that hasn't discouraged speculators. A small group of lots--actually ocean plots--were sold for \$180,000 each in the first half of the year, she says, and already have doubled in value.

Indeed, land prices along the Cambodian coast have been soaring. When word leaked out two years ago that the Sihanoukville airport would be upgraded to allow regional flights, property prices shot up 400% to 500% overnight, according to Rendall, the Phnom Penh lawyer. "Some areas jumped ten times."

Many liken the Indochine Riviera land grab to the Monopoly board game, where the goal is to grab property as quickly as possible. "It's like a big pyramid scheme," says Alexis de Suremain, owner of the Pavilion and other boutique hotels in Phnom Penh, as well as several plots on the coast. "Everyone in Cambodia is buying land because they hear their neighbors have done so and made lots of money. But it's a balloon that could burst." So far there's no sign of that, even as the financial turmoil hits property markets elsewhere around the world. "We don't see any cooling. If anything, things are still picking up," says Sung Bonna, head of Bonna Realty, the country's largest property appraiser.

The boom naturally raises the questions, Why Cambodia? And why now? Tourism has boomed for decades across Southeast Asia, and Cambodia is catching up with a fury. Last year tourism topped 2 million visitors, and officials predict 4 million visitors by the end of the decade. But as one of the country's three key industries, after textiles and agriculture, tourism has been largely one-dimensional. Most visitors fly to Siem Reap, look at the Angkor temples, then jet off to beaches in Thailand. The average stay remains under two nights. "That's why the opening of the airport [in Sihanoukville] has been so critical," says Etienne Chenevier, Asia director of French developer CityStar, which has been buying property around Sihanoukville and on nearby islands. "There needs to be a good way to move around Cambodia, from the temples to the beaches."

Prime Minister Hun Sen changed the equation in January 2007, when he approved plans to lease the coastal islands, unleashing the frenzy. A new constitution in 2006 and elections in July that gave him a landslide mandate added a sense of stability that has spurred land sales. The Web site private-islands.blogspot.com, called Cambodia "Asia's newest island hot spot."

A key attraction is Cambodia's investor-friendly land laws. It offers some of the best leases in the region, says Rendall, with terms of up to 99 years. In Thailand, foreign developers must resort to dodgy legal maneuvers to get even 30-year leases. Last year Cambodia passed laws allowing the registration of leases, and there has been talk of allowing foreigners to own 100% of a property, while Thailand and most of Asia doesn't allow foreigners to own land. Cambodia already allows 100% foreign ownership of a business. Increased border access also could speed development along the coast. Cambodia and Thailand offer visas on arrival, and Vietnam has announced plans for a ferry linking Phu Quoc to the Cambodian coast, 9 miles away.

All is speculation, but a test case for the appeal of the Indochine Riviera is shaping up on two isles near Kaye's Ko Rung. Rory and Mel Hunter, an Australian couple, were on a boat tour of the area when they spied what locals call the Sweetheart Islands. The Hunters run Brocon, a firm that renovates and manages apartments in Phnom Penh. They claimed the country's second island lease and launched Song Saa Resort.

Designed by Bangkok über-architect Bill Bensley--who has worked for Four Seasons, Marriott and Anantara--a collection of villas built over the sea will follow the Maldives model, with rates of \$1,000 a night. Villas in the \$30 million resort will be sold as investments but will be managed and let by the resort. "The opportunities in Cambodia are phenomenal," says Rory Hunter, steering his speedboat around a rock outcropping 20 minutes from Sihanoukville, then along a sweep of perfect white sand that seems endless. If only the development path were as smooth. "The hardest part is figuring out how everything is done, since there really is no set process."

Kaye sees a time when the rich crisscross the Gulf of Thailand islands in their yachts, and he recalls when Phuket was less developed than the Cambodian coast. "Nobody went there, but now everyone wants a piece of Phuket," he says. Supply and demand are the driving forces of his Indochine Riviera. "Everyone wants an ocean view," he says. "This is my ultimate dream, a whole island and 6 kilometers of west-facing beach in turquoise waters. I'm looking forward to this for the next 20 years. Regardless of the current economic situation, you will see me here on the beach developing resorts in Asia."