

Southeast Asia

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Boom to bust in Cambodia

By Tim Sturrock

PHNOM PENH - Potential buyers at the entrance to the Grand Phnom Penh International City pass through a 29-meter-high, 42-meter-wide arched gateway topped with 18 life-size bronze stallions, only to arrive at a moonscape of bulldozed earth and ditches.

When the project was unveiled in 2006, it proposed 4,000 residential villas and apartments at a projected cost of US\$500 million. The joint Cambodian and Indonesian developers' promotional material promised the convenience of a shopping center and an international school surrounded by the beauty of ponds and manicured lawns, as well as a golf course and driving range.

Of the 4,000 units in the original plans, only 21 villas will be ready by April, followed by around 100 more units by the end of the year, Grand Phnom Penh marketing director Nhem Sothea said. Only 138 units, including 44 shops, have so far been purchased.

The first phase was to include 500 units, and that goal is unlikely to be met, Nhem Sothea said. Most sales so far, with buyers paying \$99,000 for 42-square-meter terraced houses or \$138,000 for 92-square-meter townhouses, occurred before the global economic crisis hit late last year. No one has yet purchased any of the properties billed at over \$750,000.

"The market is really bad," Nhem Sothea said at his on-site sales office. "The market is not really up to expectation. The future of the project depends on demand."

Grand Phnom Penh is just one of a half-dozen so-called "satellite cities" that property developers once promised would serve as suburban getaways for Phnom Penh's growing affluent and expatriate populations. But those plans, worth a combined \$3.5 billion, were conjured when Cambodia's property market was booming; developers now say they may scale back or delay indefinitely their ambitions.

Banks have already restricted loans for real estate as economic growth has slowed and as property prices have dropped - in the city center by about 25% since last July, and in the outskirts by 30%. Cambodia's gross domestic product growth is projected to fall below 5% this year, a sharp decline from the heady double-digit expansion the economy averaged from 2004 to 2007.

The global crisis is taking a toll on Cambodia's main economic growth engines: garments, tourism and property. There were some indications of a property bubble even before the global economic and financial collapse. As local property prices soared, the National Bank of

Cambodia (NBC) in mid-2008 restricted access to loans by doubling banks' foreign currency reserve requirement to 16% from 8%. The NBC also capped the amount of real estate loans banks could make at 15% of their portfolios.

The central bank in February repealed those restrictions in response to a rapid decline in the property market. An International Monetary Fund report last month said Cambodian banks and the NBC needed to improve management of risks and banking supervision to avoid failing loans, which it said appeared to be rising.

Bulls to bears

While developers insist that their projects remain viable and have secure financing, the assertions come against plunging demand and a short supply of lending to potential buyers. Sung Bonna, president of Bonna Realty, said that speculators a year ago were buying up real estate with hopes to sell it later to developers for a profit. "Now even in general property in the city center there is not so much demand."

He predicted that at the most, only 30% of satellite city units could be purchased by Cambodians and urged the government to make Cambodian real estate more appealing to overseas buyers. Foreigners are at present barred from buying condominium units in Cambodia.

Indications of a slowdown are ubiquitous. Along the city's Tonle Bassac riverside, billboards for the satellite city Diamond Island City, planned for nearby Koh Pich island, show a so-far nonexistent metropolis that looks as if it were rendered by utopian cubists or futurists.

When the Overseas Cambodia Investment Corporation (OCIC) unveiled Diamond Island City in 2006, during the days of Cambodia's go-go property boom, the plan included a hospital, restaurants, a shopping center, park and series of homes, some with personal swimming pools, that ranged in price from \$280,000 to \$1 million.

Investment in the Koh Pich project could drop by one-third to \$800 million from \$1.2 billion, said Touch Samnang, the project's manager and architect. That would likely entail trimming the number of units from 15,000 to 12,000, depending on demand, which he said has been affected by the global financial crisis. OCIC is still building bridges to the island, yet no units are under construction. Touch Samnang admitted pre-sales have not gone as well as anticipated.

Of the 168 units planned in the project's \$28 million phase one known as "Elite Town", buyers have purchased only 40% after more than a month of sales, he said. That's a huge drop over the past few years, when units at other OCIC projects sold out in weeks. Elite Town will be delayed at least six months or until mid-2010, and the entire project could be finished in mid-2017, about 18 months behind schedule, he said.

Asia is only too familiar with the damage that can be wrought by a property collapse, seen in Thailand, South Korea and Indonesia during the 1997-98 Asian financial crisis. Stephen Higgins, chief executive officer at ANZ Royal Bank, the country's largest, said he did not anticipate the same problems that Bangkok and other Asian cities faced in 1997 when hundreds of buildings were left half-completed when financing dried up.

"Where Cambodia is fortunate is that a lot of these project haven't been constructed," he said in

an interview, nor did most property-owners in Cambodia have mortgages so the market has some residual strength.

The problem now is that so many projects attempted to take advantage of the property boom at once. Higgins says the financial crisis has acted as a correction in some ways, possibly stopping all the projects from happening at once and flooding the market. "It will take a bit longer but that is not necessarily a bad thing," he said.

In northern Phnom Penh, the cranes are still swinging at Camko City, a \$2 billion, 120-hectare satellite project that originally boasted plans for 6,000 units. The new economic situation may force a rethink, according to Kheng Ser, a marketing counselor for South Korean project developer World City.

He claims sales at Camko have been better than at rival developments, with 80% of the city's first phase 1,009 units of apartments, small villas and houses sold at prices of up to \$330,000. According to Kheng Ser, the villas and houses will be completed this month and the tower blocks by the end of the year. However, designs are not complete on Camko's much larger phases two and three, he said.

Even the country's best-known tycoons are scaling back their property development plans. Sok Kong, president of Cambodian conglomerate Sokimex, said that he would delay plans on a 218-hectare satellite city to be called Beong Chhouk Township, though he said a land dispute was the main reason for the delay.

"We drew the master [plan] a while ago," he said by telephone. "I have to delay three or four years." He said he wants to focus his financial resources on his \$1 billion Bokor Mountain development in Kampot and another hotel project on Phnom Penh's Chroy Changva peninsula.

Hard-hit Koreans

Meanwhile, South Korean-financed projects have faced some of the heaviest cutbacks. The global economic crisis, which has hit South Korea particularly hard, has leveled original plans for a proposed \$300 million, 953-unit Pharos Mekong satellite city on five hectares of the Chroy Changva peninsula, according to an e-mail from Kheang Piv, a marketing manager for the Korean-owned project developer BK Asia Pacific.

He wrote that after the global financial crisis began, Korean finance dried up and the company could not get the money it needed to move forward. The company planned to start construction in December, but pulled back in November, Kheang Piv said. "It is not the right time for us to sell such kind of luxurious, high-end apartments. Eventually, we decided to keep our project on hold till the desirable time," he wrote.

The International Finance Complex is perhaps the largest South Korean-backed real estate project in Cambodia to feel the financial pinch. Korean firm GS Construction & Engineering broke ground in June on the IFC's seven skyscraper mixed-use complex near the Tonle Bassac. But the entire development has now been postponed until at least 2010, and then only three of the original planned seven buildings will be built. The project, originally projected to cost \$1 billion, has been winnowed down to around \$500 million.

In September, Korean firm Booyoung Company shelved plans for a development on a more-than-100-hectare expanse of land near Russian Boulevard because of uncertainty in the

market, according to Jong-seon Choi, general manager for Booyoung in Phnom Penh. "We stopped because of the financial crisis," he said. "It's very uncertain."

The economic situation has also stifled less ambitious projects. At the proposed 500-unit, five-hectare Dream Town near Phnom Penh International Airport, only 30 units have been sold and its 2012 completion date will likely not be met, said Kong Vannsophy, manager of the project's developer, Cambodia Priority Property Investment.

"If we rush and no people buy, we lose money," he said. "A lot of other projects are facing these conditions."

ANZ Royal Bank's Higgins said the risks have grown regarding demand for Phnom Penh's satellite cities because many are in remote areas. "You would have to expect that the downturn in the property market will have some impact in those projects," he said. "By definition you are setting up in a new area, whereas if you set up in Phnom Penh you know there is going to be demand for it."

He said ANZ will not likely loan money to borrowers seeking to purchase property in satellite city projects. "It's difficult to say. We should not have a big appetite for it. We want to see something built."

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