

**Sector
Highlight**

May 2009

**Real Estate
in Cambodia**

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Under the Khmer Rouge's 1975-1979 radical regime, private ownership of property and money was abolished throughout Cambodia and land title records were destroyed. After the regime's overthrow, displaced Cambodians occupied and settled into vacant properties, resulting in a comprehensive land redistribution exercise, perhaps unparalleled in recent global history. Property rights remained fragile until the adoption of the 2001 Land Law, which clarified key issues related to transfers of private land and concessions and leases of State-owned land, and ushered in a modern system of land registration. Like almost everywhere in Asia, this law limited ownership of freehold land to local nationals or companies majority owned by locals. Foreigners are allowed to hold up to 49% of a land-holding company or may lease land up to 99 years. Many foreign investors achieve effective control of freehold land through the use of various accepted legal structures.

The new property law, followed by the introduction of mortgage loans in 2004, set the stage for Cambodia's modern day property boom. Other supporting factors were improving perceptions of Cambodia's political stability, robust economic growth, a lack of other local investment alternatives, and the global rise in property prices as the world's liquidity bubble inflated. From 2004-2008, property prices in Phnom Penh surged 200-500%, and Korean developers began advertising plans for residential towers and multi-billion dollar "satellite city" projects that promised to dramatically transform Phnom Penh's current landscape of villas and shop-houses. However, the collapse of the US subprime mortgage market and property markets globally eventually hit Cambodia in the second half of 2008, leading most major developers to scale back or delay their real estate projects.

The government and private sector in Cambodia made some important efforts to regulate and stimulate the real estate sector in the aftermath of the downturn. Real estate professionals collaborated to form two professional associations (one for valuers and the other for developers) to address challenges in the sector. The National Bank of Cambodia relaxed banking reserve requirements and property exposure limits that had been sensibly tightened in mid- 2008 near the peak of the boom, hoping to stimulate activity and confidence in the property market. Meanwhile, the Ministry of Economy and Finance, in a noteworthy effort to protect consumers, is trying to introduce a government edict to tighten developer licensing requirements and establish reserve capital requirements for construction projects. (This move has been strongly resisted by developers seeking to preserve their cash flow in a market largely financed by pre-sales of units.) In addition, the government is preparing a law to introduce strata titling and allow foreigners to purchase condominiums above the ground floor.

At the peak of the property boom in mid-2008, top sites in Phnom Penh were reportedly changing hands at \$4,000-5,000/sqm. Since then, real estate experts have estimated property prices have fallen 30-40% but volume remains extremely thin. The market will take time to clear as many owners purchased their properties with cash and can afford to wait for market recovery, while others bought with seller financing and can at worst just hand back the property. But there was also an element of leveraged speculators and property flippers, and most of these players have been crippled by the downturn. A handful of banks that were active in the mortgage market are facing rising delinquencies, but most used 50% loan-to-value ratios based on deeply discounted valuations, and did not allocate much of their portfolio to property. Apparently, no banks have tested their foreclosure rights in the court system but we are told that one is getting ready to. Meanwhile, amidst the uncertainty, construction continues on several development projects that got underway well before the market fell;



including the nearly-complete 29-story OCIC Tower, an office building in Phnom Penh that is currently Cambodia's tallest structure.

Long term, the outlook for Cambodia's real estate sector is underpinned by the country's youthful demographics and current undersupply of most property segments. For example, while Siem Reap is well supplied with hotel rooms, it still has few residential units for hotel managers and other expatriates (the target of Leopard Cambodia Fund's planned Angkor Residences project). In Phnom Penh, it is still difficult to find quality office and retail space, or recreational and entertainment facilities. And on Cambodia's scenic coastline and islands, boutique resorts and villas are needed. Leopard Cambodia Fund will continue to look for unfilled niches in property as one of its various investment strategies.