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Reach for the sky

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A street of new housing in Phnom Penh

Above the tumultuous streets of northern Phnom Penh, the new Canadia Tower reaches 30 storeys into the sky, dwarfing the palaces and temples that grace the rest of the city's skyline. The glass-fronted tower is now the highest building in Cambodia and marks the start of an ambitious plan to attract increased foreign investment to this small Asian market.

Known as the "pearl of Asia" in the early 20th century, Phnom Penh has suffered years of civil war and a repressive communist regime, but its architecture of golden-tipped temples, red-roofed houses and French colonial mansions is still distinctive. The Canadia Tower, also known as the OCIC Tower, is instead designed to imitate and rival the sort of modern office space available in bigger neighbouring countries such as Vietnam and Thailand.

The soaring structure will soon be joined by other high-rises across the city, offering homes as well as offices. Some are being funded locally, others by foreign investors (mostly Korean) but all the financial backers hope they will attract wealthy foreigners and persuade locals to forgo their traditional two-storey Khmer villas for an apartment (or an office) with a view.

A new law permitting foreigners to buy condominiums in these skyscrapers will for the first time, the government hopes, encourage a wave of overseas interest.

But the new style of living might take some adjustment, according to local property experts. "Living in a condo is a new concept for Cambodian people," says Bun Phearith, sales agent at Bonna Realty Group, one of the largest estate agencies in Cambodia. "But it's an idea that is gaining popularity. Among our younger clients the first properties they ask about are apartments in multi-storey buildings."



The city's Canada Tower

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The Canada Tower stands on Monivong Boulevard, down which Khmer Rouge soldiers marched in April 1975 when they took over Phnom Penh and began to systematically destroy all traces of urban modernity in Cambodia. In just three years, eight months and 20 days, the terrifying success of their vision caused the deaths of millions. By the time the Khmer Rouge were driven out, Phnom Penh was a ghost town.

Senaka Fernando, chairman of the British Business Association in Cambodia, arrived in the capital in 1994 as peace was finally taking hold. “Back then, when planes landed in Phnom Penh at night there was nothing to see – no lights, no large buildings,” he recalls. “The

changes that have taken place here over the past 16 years are remarkable.”

Between 2000 and 2009 economic growth in Cambodia averaged 8 per cent. To reflect its success, gleaming high-rises were planned at the height of Cambodia's property boom. The real estate sector was suddenly awash with money, and prices rose accordingly. Between 2005 and 2008 the cost of property in some areas of Phnom Penh rose from \$550 per square metre to \$5,000 (Cambodia's property prices are routinely quoted in US dollars).

Developers planned a series of huge towers and a ring of satellite towns on the outskirts of Phnom Penh. Speculators bought up land for better roads, more shopping malls and larger office blocks. The tallest building planned was the International Finance Centre (IFC). This \$1bn complex, backed by South Korean company GS E&C, was to have housed a shopping mall, 1,064 apartments, 275 serviced apartments and a school within its 52 storeys.

Then the bubble burst. As the global recession hit south-east Asia, building works ground to a halt and land cleared for work remained empty. Investors took their money away and, according to the International Monetary Fund, the Cambodian economy contracted by 2.5 per cent in 2009. Buildings such as the IFC tower were put on hold or scaled back and property prices in the city centre fell by up to a third.

Not even the Canada Tower has escaped the downturn. Overseas Cambodian Investment Corporation (OCIC), owner of Canada Bank, had hoped to persuade the country's biggest organisations to set up shop inside. But much of the building remains empty and prospective tenants are now being offered a 50 per cent discount if they agree to lease space for a year or more.

Yet there are signs that the Phnom Penh property market is finding its feet again. Those who held on to properties as investments are now looking to sell, real estate agents say. Aceda Bank, a Cambodian commercial bank, has also reported an increase in the number of mortgages issued for residential property at the end of 2009.

Although the number of property transactions is nowhere near the heady levels of 2008, there is a feeling that the market is settling down. Thomas Sterling, country director of Cambodian property managers Sterling Project Management, believes the price crash was in some ways a good thing. “There was so much speculation that it became questionable whether there was any real market for property in Phnom Penh,” he says. “The recession has acted as a natural correction to cap prices.”

Properties in the most desirable areas, such as the riverfront, now fetch around \$2,500 per sq metre, according to Bonna Realty. In the north of the city, along the wide streets of what used to be the French quarter, buyers can expect to pay around \$1,250 per sq metre.

Rather than new and large-scale projects, the renewed interest is in select projects that are already under way, such as Gold Tower 42. Twenty storeys of the \$300m South Korean project, financed by DaeHan Real Estate Investment and built by Yon Woo, are already up and the tower should be complete by late 2011. All of the office space, and half of the residential space has already been sold.

Across town, developers of the Diamond Island project are hoping to finish ahead of schedule. About half of the 168 homes built in the first phase of the project, on sale for \$200,000-\$1m, have been sold according to managers for developers OCIC. The rest was slated for completion in 2016 but the developers hope to bring this forward by two years. Other satellite towns include the Grand Phnom Penh International City, which will contain 4,000 residential units, and the \$2bn Camko City project.

Interested overseas buyers have been given a helping hand by new government regulations. Previously, foreigners who wanted a stake in land had to establish a joint venture with a Cambodian national. But Cambodia still has a way to go before it attracts large numbers of overseas investors. Electricity prices are high and blackouts are not uncommon; phone networks can be unreliable and corruption is still a problem.

Foreign investors might also have qualms about buying into developments that have had a negative impact on the country's poorest people. The losers in the evolution of Phnom Penh from backwater to international city are the citizens evicted from property that was sold to developers with minimal compensation.

But with the IMF now predicting growth of 4.8 per cent in 2010 and Cambodia's links to the rest of the region strengthening, investors who choose carefully could find themselves first into a country attracting more international attention each year.