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Real Estate Boom in Cambodia's Capital

A decade ago, Phnom Penh didn't even have a traffic light. Now, high-rise condos and offices are in development and land speculators are raking in profits

by [Susan Postlewaite](#), June 2, 2008



Construction is now under way on Gold Tower 42, the Korean-funded project that upon its completion will be the first skyscraper in Cambodia.

At a construction site in the middle of the city, a yellow backhoe levels rubble left from the previous building, an old hospital, while dozens of workmen in hard hats and rubber boots scrape away at the dirt. Nothing that noteworthy about this scene—until you consider the location: the intersection of Monivong and Sihanouk Boulevards, in downtown Phnom Penh.

After spending most of the past three decades struggling to recover from the legacy of the Khmer Rouge's genocidal rule, Cambodia is in the midst of a real estate boom. If all goes as planned, the dirt at Monivong and Sihanouk will soon sprout the country's first skyscraper, a 42-story residential building funded by money from South Korea. A few kilometers away, near the river, workers are clearing a lot for another skyscraper, also Korean and even bigger, with 52 stories.

A decade ago, Phnom Penh lacked even a single traffic light. Today, as land speculators rake in profits and new developments lure tenants, the dilapidated capital, which until recently was dotted with dangling electric wires and garbage-strewn lots, is getting a makeover. All over the city, shanty towns and old villas are being sold for land value and razed to make way for high-rise apartments, office buildings, shopping malls, and new villas.

Other parts of the country are seeing development, too. [Developers are targeting Siem Reap](#) (BusinessWeek.com, 4/21/08), near the ancient temples of Angkor Wat, for new hotels.

Does Cambodia Need Skyscrapers?

The Phnom Penh skyscrapers, which will be more than three times higher than the tallest existing building in Cambodia, are the most dazzling projects. And the most controversial. The developer of the \$240 million Gold Tower 42, [Yonwoo Co.](#), expects construction to take three and a half years to complete. Already, says Teng Rithy, sales manager for Gold Tower 42, "high-ranking Cambodians and some foreigners from other Asian countries" are plunking down deposits. "We are 80% sold out," he boasts.

Not everyone is convinced the skyscrapers make sense. Many lawyers, bankers, and real estate brokers in the Cambodian capital are wondering whether the skyscrapers will really go up and whether there is demand for new construction. So far, new buildings are not having trouble leasing, since the city suffers from a shortage of modern office space. Tenants like the World Bank lease space in rabbit-warren-like villas with odd hallways leading in all directions.

But residential skyscrapers are a new concept in a country that not too long ago was still giving away property, not trying to market a 40th-floor condo for \$1.6 million. "I feel it's a little bit early for that," says Sung Bonna, head of Bonna Realty, one of the leading real estate firms in Cambodia. "They said it's going to be a success. But I don't know. If it doesn't happen, it is not good for us."

Bonna says the whole idea of a real estate market in Cambodia is so new that no one can predict how it will turn. "We used to share property, not sell it. After the Pol Pot regime, however many properties you want, you can take all of them." He says there is a need for more modern restaurants, office buildings, and commercial centers, but the supply and demand for residential properties is in balance.

Korean Connection

For now, though, there are promising signs. Prime Minister Hun Sen—whose government at one point or another signs off on the big development deals—likes the skyscrapers and he wants more of them, according to his aide, Sry Thamarong. And land prices are hot. A traditional shop house—4 meters wide by 18 meters deep and going up four to five floors—along the river that sold in 2006 for \$300,000 is now going for \$600,000 to \$700,000. But this is still much cheaper than Ho Chi Minh City in Vietnam, the real estate agents say.

Since Cambodia is still a very poor country that has never seen so much investment capital flying around, the trend is unnerving some observers. "Where is the money coming from? Cash coming out from under the mattresses, cash coming from overseas," says John Brisden, vice-chairman of [Acleda Bank](#), the largest bank in Cambodia. He calls the real estate boom "very unusual" because much of it is not being financed by bank loans. Are there signs that the boom may be running its course? Brisden doesn't see a sudden popping of the bubble. Instead, he says, "people envision a slowdown. The scenario is a lot of empty high-rise properties but no forced sales."

Most of the big new projects are coming from Korea. Financing the Gold Tower 42 skyscraper is Korea's DaeHan Real Estate Investment Trust. Yonwoo is the developer. A director at Yonwoo in Seoul, who asked not to be named, says his company began exploring real estate development opportunities in emerging economies three years ago, when Korea's

domestic construction market began cooling. "In view of a number of wealthy Cambodians and a growing number of foreign investors arriving in Cambodia, we are confident Gold Tower 42 will be a success," the director says. Phnom Penh-based salesman Rithy says there are "high-ranking Cambodians" involved in the project, but he won't say who.

Investors Face Legal Hurdles

The 52-story skyscraper announced in January is a project of Korea's [GS Engineering & Construction](#). The Seoul company plans to start construction in June and finish in 2012. A 34-story project near the Russian embassy will have serviced residences for 280 households and several floors of apartment blocks on top, as well as shopping and an international school, according to GS spokesman Choi Byoung Geun. "Cambodia really needs this kind of Class A facility," says the business development chief in Cambodia, Mu-Hion Woo, who figures by the time the \$1.2 billion project is built, the demand will be there.

A Korean developer is also behind Camko City, a new suburb northwest of Phnom Penh with a \$2 billion price tag that is in the early stages of development. World City, the property developer, began construction last June and is scheduled to complete the first phase by November, 2009, according to Korean contractor [Hanil Engineering & Construction](#), the Seoul-based company that is also the contractor for Gold Tower 42.

There are some legal hurdles for potential investors to overcome. For instance, foreigners are not allowed to own real estate outright in Cambodia. But there are plenty of ways to get around the law. Foreign investors can set up a joint venture with Cambodian partners, use long-term leases, or put the land in the name of Cambodian partners. There's even the possibility of becoming Cambodian. "With an investment of a certain size, you can get citizenship. It's a contribution to the country," says Matthew Rendall, a lawyer with Sciaroni & Associates, a law firm in Phnom Penh.

Evictions in the Name of Development

National Assembly lawmaker Sam Rainsy, a former Finance Minister and leader of the largest opposition party, calls many of the real estate deals "shady." He argues that Cambodia is awash in illegal cash plundered from the sale of national assets, including illegal logging and the sale of public lands, where land titles are easily changed and the sales revenues never get accounted for in the state budget.

And there has been a social cost to all the new development. The scramble for prime land has led to widespread evictions of people without clear land titles to the properties. A report by human-rights group Adhoc in Phnom Penh says in 2006 and 2007 more than 50,000 people were evicted for development. Chan Soveth, program officer at Adhoc, says he expects 4,252 families in Phnom Penh to be evicted from villages surrounding Boeng Kak, a lake in the city where a developer wants to build a new township that will have condos, a hotel, and shopping. "It is very bad and getting worse," says Soveth. Adds human-rights lawyer Am Sam Ath of the nongovernmental organization Licadho: "There is no balance between the big development and the rights of the people."

But with land prices continuing to skyrocket, regardless of what happens with the skyscrapers, there is no indication that the land speculation boom will stop. "No one can predict," says Bonna, but he thinks it could run "maybe five years more."

