

We're now well on the road to recovery

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CAMBODIA's real estate sector is yet to bounce back following the world economic crisis but there are positive signs of recovery, property prices have stabilised and there is confidence in new foreign investment.

Despite the growth throughout the economy not yet impacting upon the real estate and construction sectors analysts confidently predict there will be a recovery over the next two years.

Douglas Clayton, chief executive officer of Leopard Capital said the real estate sector was still the weak link in Cambodia's economic recovery.

"A price bubble formed before the global crisis, especially in Phnom Penh land prices, and this needs more time to correct," he said.

He said that the local economy had to grow more to stimulate end-user demand. Overseas Cambodians had stopped sending money for speculative property purchases so now it came down to what the locals could really afford.

Commercial and residential land prices dropped 2 percent to 3 percent quarter on quarter of 2010, said Sung Bonna, president & CEO of Bonna Realty Group and president of the National Valuers' Association of Cambodia. These values would rise again after continuing their slide through the middle of the year.

Commercial land in Phnom Penh was estimated to be worth US\$2,650 per square metre this quarter, down from \$3,000, for the same period in 2009. Residential land was estimated at \$1,550 per square metre, down from \$1,800, for the same period. "Now it has really dropped to the bottom, and it will start to increase again from now on," Sung Bonna said

Today's market was a buyer's market where people who had specific requirements or budget constraints could find what they were looking for, and where some property speculation took place.



But he said that although the real estate market had still to recover from the fallout of the global economic crisis there were positive signs of recovery in the Kingdom's urban centres and the sector had started to have "more and more transactions compared to 2009".

"I hope it will recover over the next two years, but that it is not a boom like in 2007 and mid-2008," he said.

According to a report from the National Valuers' Association of Cambodia, released in July, residential property prices in Phnom Penh during the second quarter of this year were down 50 percent at an average \$1,600 per square metre, compared to the first quarter of 2009 when prices in the market peaked.

Commercial property prices in the second quarter were also down 47 percent at \$2,600 per square metre, compared to nearly \$5,000 per square meter in the first quarter 2009. The report showed that the prices for commercial and residential property remained stable for the first quarter to second quarter of this year.

At Cambodia Properties, Seng Sopheak, a valuation manager, said land and housing prices had already stabilised while the new property law could help the sector improve. He called for the banks to provide property loans with low interest rates.

Clayton said that there were always attractive niches that could be filled in a market like the current one, but investors had to understand the market, be very creative, and try to do something unique.

He claimed that since some large projects were still going ahead, there was a rising danger of oversupply in one or two years for high-end apartments and offices in Phnom Penh and that everyone seemed to be focused on serving the same small segment of rich people.

Cambodia's economy gained momentum in the second quarter of 2010 and for the first half of 2010 compared to the same period in 2009 trade increased 16 percent, tourist arrivals increased 12 percent, garment production 10 percent, bank deposits 31percent , bank loans 14 percent, microfinance loans 25percent, and foreign exchange reserves increased 18 percent to \$2.9 billion.

The figures were produced in the Leopard Capital newsletter which also stated that the only key sector still ill was real estate, as demand remained dormant despite a plunge in prices over the past two years although construction continued on some pre-crisis condo projects in Phnom Penh.

There were some hopeful signs for future foreign direct investment, mainly from Asia. New foreign business registrations surged 42 percent in the first half 2010, led by investors from China, Vietnam and Korea. Vietnam officials said their businesses intended to invest \$1.3 billion in Cambodia over the next two years in seven industries.

China's cumulative investments in Cambodia have now reportedly reached \$8 billion, making it by far the largest investor. China has been the dominant infrastructure banker and contractor here.

Bretton Sciaroni, senior partner of Sciaroni & Associates and legal adviser to the government, said that in relation to the figures for the real estate and construction sector, the recovery of what was a critical area was clearly lagging behind other sectors of the economy.

He said that with projections for gross domestic product by international financial institutions now estimated at about 5 percent for the year, recovery in real estate and construction did not appear to match that growth.

"Other sectors of the economy reflect the growth, led by sectors such as tourism, banking and finance, and trade, but as suggested by the recent statistics, this growth has not yet had a significant impact on the real estate and construction sector," he said.

But he said that there were some positive signs with some main and very visible projects including some major high rise buildings proceeding.

There was also the new law giving foreigners the right to own apartments and condominiums which should provide some relief to the sector and the government was doing what it could to provide impetus to revitalise construction.

David Simister, chairman of CBRE Indochina, told the Post that looking at Phnom Penh today and imagining all the listed properties happening, one would raise a question of absorption rate and affordability.

Comparing the market today to 10 years ago, he said you might be amazed at the number of high rises, million-dollar villas, and construction now close to completion.

He said Cambodia was a concentric economy, with the majority of economic activity benefiting Phnom Penh and you could expect to see locally generated wealth flowing back into the Phnom Penh real estate market.