Lessons in Cambodia's Real Estate: Raw Opinion of a Practitioner

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Why investing in Cambodia's real-estate

With political stability, Cambodia has opened to the world and has become one of the fastest growing-economies in Asia, with strong record of sustained GDP growth of over 7% in the past two decades prior to the COVID-19 pandemic in 2020, driven largely by export-oriented manufacturing, tourism and real estate developments.

Geographically, Cambodia is located at a very strategic location within ASEAN. It is the central hub and gateway to ASEAN member nations. So, investing in Cambodia is to target the overall ASEAN market with 670 million populations. Cambodia also joined RCEP. Such regional integration laid a good foundation for Cambodia to boost its exports further through multilateral and liberalized trading system. Investors may also benefit from the bilateral Free Trade Agreements established between Cambodia and China and other ASEAN/RECEP member nations.

Cambodia is agricultural-based economy. With its young and inexpensive vibrant work force and huge vacant agricultural lands across the country the country presents a great opportunity for investment in agro-industrial sectors for domestic consumption and exports to regional and global markets.

Cambodia is largely a dollar-based economy. Foreign investors can conveniently transact their business within the country in U.S dollars and repatriate their business profits with ease. Favorable investment climate for Foreign Direct Investment (FDI). Freehold foreign property ownership and 100% ownership of business are allowed. No restriction or control on foreign exchanges and international money transfer.

Cambodia remains a sought-after paradise for tourists and retirees, attributed to the low-cost of living, untapped natural resources, absence of major natural disaster, political stability, urbanization and on-going infrastructure development.

Opportunities in real estate investment

As a newly emerging market, Cambodia presents a golden investment opportunity in real estate, which is an important pillar contributing to the country's economic growth. In the last two decades, affordable housings and plot lands were rapidly developed in urban centers and suburban areas respectively in response to the migration of young Cambodians from rural to urban areas in search for job or in pursuit of further education. Further, millions of young Cambodians, who are working overseas, have been sending money back to Cambodia members to invest in residential properties for investment or residential purpose.

The changing lifestyle among the younger generations is a key contributing factor to development of mid-range and high-end residential properties including gated communities ("Borey") and condominium in the urban centers. The older generation Cambodians chose to live with big family under one roof either for economic or cultural reasons. The younger-generation Cambodians, in contrast, are more educated and economic independent. They are either professional or entrepreneurs, who largely represent the rising middle class with exposure to overseas and contemporary lifestyle.

The influx of tourists has driven the development of hospitality industry, building of guest houses and hotels of all levels, which indirectly drives the price of real estate up in major urban areas including Phnom Penh, Siem Reap, and Sihanoukville.

The Cambodian government has ambitious urban expansion and infrastructure development plans to cope with anticipating demographic and economic growth.

Due to limited public transportation and increasing traffic congestion, Condo has become more and more appealing to young educated and professional Cambodians working in Phnom Penh and major cities. However, condo-living is still not attracting Cambodians at large. Most Cambodians still prefer landed properties, Villa or Town House, to Condo. The main contributing factors to such negative attitude include Condo's strict rules and regulations, relatively high management fee, limited parking, and no empty space for hobby gardening, many Cambodians suffer from acrophobia.

Cambodia's real estate boom was largely driven by home lending products made available by banks and Microfinance Institutions (MFI). In the last two decades, commercial and specialized banks began to offer attractive home loans to middle-high income earners with long loan tenor and flexible payment options. While MFIs have offered micro-loans to low-income earners with social mission. These, in turn, have driven remarkable sales growth in the residential housing business.

With constant economic growth and ever-changing lifestyle, younger generation Cambodians become more active in their employment, career, business, and less time for their parents or grandparents at home. Such challenges trigger the needs for quality nursing homes for elderly that have been growing in number.

The most potential areas for investment in real estate include Phnom Penh, Siem Reap and Sihanoukville. Phnom Penh is home of over two million residents. It is the center for tourism, foreign investments, commercial activities, and government. Rapid real estate development has been witnessed in recent years with hotels, skyscrapers, shopping malls, and gated communities being developed by both domestic and foreign investors. The norther part of Phnom Penh, along the national road 6A leading to Siem Reap is ideal for high-end residential properties given it's newly developed areas along the 2 rivers: Mekong and Tonle Sap. Siem Reap is the gateway to Angkor Wat, the Eighth Wonder of the world. It established itself as a cultural hub for tourists and therefore driving demand for accommodation and real estate development. The completion of the 38-road expansion project, with total length of over 106 km and cost around USD149 Millions added significant value. Sihanouk Ville is, once-tranquil beach town, vibrant commercial town characterized by the white sand beaches, busy commercial port, special economic zone, and high real estate prices. The Highway connected from Phnom Penh adds additional commercial value to the development. The influx of Chinese investments in hotels, apartment towers, restaurants, and casinos prior to the pandemic made Sihanoukville the fastest growing real estate development.

The Chinese investors withdrew after the ban of online gaming business followed by the pandemic, leaving behind with unfinished buildings that can be turned into a great investment opportunity for those developer/ investors who have funds and the right expertise as they can pick and choose the right location and negotiate for the best price using their best bargaining power.

Challengs and Risks

While Cambodia represents great investment opportunities in real estate, one must emphasize that challenges and risks are present and need cautious investment decisions.

Things you need to know including the type of land ownership, property developer's background and reputation, property location, and infrastructure, flooding in the area.

Proof of land ownership in Cambodia was not available after the Khmer Rouge Regime, in which private ownership of landed properties was abolished and land title records were destroyed. Cambodia began its private ownership re-establishment process from scratch with Land law being promulgated in 1992 followed by amendment in 2001 whereby a land registry system was created enabling land title issuance.

Several types of title deeds are available in Cambodia including LMAP, Hard Title, Soft Title, Strata Title. LMAP and Hard Title are both recognized at the national level and are the strongest form of land ownership. Initiated by World Bank, LMAP is different from Hard Title in that it has GPS coordinates that clearly identify the property boundaries. Soft Title are the most common form of land ownership recognized at the district and commune level. Strata Title is a hard title designed for co-ownership property. It is strongly recommended to have the ownership verified with the Ministry of Land Management to ensure it is legitimate, genuine, and encumbrance-free. Land ownership option should be decided based on investor's actual investment purpose and risk appetite. Advice from experts should be sought to mitigate investment risks.

The Cambodian law prohibits foreigners from land ownership in the Kingdom. The Strata Title introduced in 2009 allowed foreigners to own private units above the ground floor of co-owned residential or commercial building in Cambodia provided that the co-owned building is owned minimum 30% by the local Cambodians.

There are several options available for foreigners to invest in landed properties in Cambodia. The most secured option is to acquire a Cambodian citizenship. Other options include renewable long-term lease, engaging a trust company, setting up a property-holding company with 49%-51% shareholding structures, or using the nominee structure through which a Cambodian citizen is nominated as a legal owner.

In the last two decades, plot land development has become a popular investment opportunity among domestic developers in response to growing demand of low-income earners seeking to invest in landed properties for capital gain and/or residential purposes. However, in the recent years, such opportunities have been eroded due largely to unethical activities of some developers and the loss of incomes among low-income Cambodians.

Real estate business is less regulated. The general practice of real estate transactions is conducted in a traditional manner with thumbprints of the buyer and seller placed on the deposit form/agreement established with or without witness/lawyer. Brokerage service is available but not mandatory. Bank's Escrow account service is not widely used. Commercial banks have imposed lending restrictions to real estate sector in their lending portfolio.

Property valuation remains a challenge for buyers, sellers, and banks. Property valuation is a combination of arts and science. As science, it requires formula, theory and technical skills. As art, it needs human judgement and analysis. Good judgement needs practical experience, in-depth industry knowledge and data. It is therefore advisable that licensed independent real estate valuation firms should be sought to conduct professional and independent valuation services and minimize potential fraud.

Correction/Adjustment of real estate sector

Cambodian real estate will take a long and painful adjustment and correction to reach a new equilibrium.

The country has been facing challenges with an oversupply of gated communities, condos, and commercial buildings in the urban centers. This has placed downward pressure on occupancy and rental rate. Pricing strategy and structure must be corrected to fit the current real estate market. Developers need to reposition themselves in the market. Some of the existing unfinished construction projects, especially in Sihanoukville, need to be repurposed despite the challenges of the sophisticated local regulations and the costly conversion of building design, layout and MEP conditions.

Property developers must now focus on quality rather than quantity. Careful consideration will be placed on project branding and positioning, product design and concept, and sight selection for project development. Before any development projects take off, serious study must be conducted on the market to identify consumer behavior and attitude as well as the market trend. Investment in landed properties for short term capital gains and speculation is the thing of the past. Investor must have clear residential or commercial purposes for investment decision. No borrowing for investing on properties under construction for speculation purposes.

Outlook of real estate in 2024 and beyond

Emerging from stagflation, Cambodia's real estate market is heading on gradual and positive recovery trajectory. I hold an optimistic view that 2024 is a year of slow but strong economic recovery for Cambodia despite the spillover effects of China's real estate crisis, Russian-Ukraine war, Middle East crisis, and the escalating US-China geopolitical tension. According to ADB, the forecast GDP growth for Cambodia is expected to be 5.8% and 6.0% in 2024 and 2025 respectively due largely to rebounding tourism and influx of FDIs. Cambodia has experienced a significant upswing in visitor numbers with over five million of foreign tourists in 2023. According to CDC's (Council for Development of Cambodia) 2023 report, there were 268 major projects worth up to USD4.9 billion of total investment capital have been approved in 2023. Most of these approved projects are expected to be operational in 2024 and the subsequent years.

FDIs is the key driver. With its current limited capital funds Cambodia needs external capital to re-invigorate its economy. Capital funds injected in various sectors by FDIs will create jobs and stimulate the economy, thereby positively influencing the real estate business in Cambodia, directly and indirectly, since the economic performance is intricately linked to real estate sector. The pro-active and dynamic Cambodian government has ramp up its efforts in bringing FDIs into the country. It does so by introducing different measures and actively reaching out to international business communities. While China remains a major investor, Cambodia opens its door to FDIs from all countries that are interested in investing in Cambodia.