

<http://archives.tcm.ie/businesspost/2007/09/16/story26570.asp>

Investors attracted to changing face of Cambodia

Sunday, September 16, 2007 -

Cambodia has lots to offer, but care is needed to avoid certain pitfalls, writes Rory Byrne in Phnom Penh.

Until three decades of war and communist revolution ravaged Cambodia, Phnom Penh, the country's capital, was known as the Paris of the East.

An exotic blend of French Art-Deco colonial architecture and more traditional Khmer styles, it was a luxurious station for French colonial officials until the early 1950s.

While the decades of upheaval that followed profoundly altered the urban landscape, plenty of evidence of the city's "golden era" remains, with its tree-lined boulevards, ochre-yellow colonial buildings and ornate Buddhist pagodas.

In recent years, Cambodia's capital has undergone a wave of rapid growth that is changing the face of the city. New developments are springing up everywhere, and range from multi-story apartment blocks to brand new live-and-work satellite cities.

The current building boom began about five years ago after decades of stagnation in the property sector. Private property was outlawed under the ultra-Maoist Khmer Rouge regime of the late 1970s - and the communist-orientated governments that followed it - which meant that it was basically worthless.

"In 1993, when I opened my business, property had no value," said Swiss native Hans Reber, head of Reber Real Estate in Phnom Penh.

"During the 30 years of war there was no market. There was no value in land and no knowledge about the property market. I have a friend who bought a property in Phnom Penh for a few cases of beer."

That all changed when the value of property began to skyrocket on the back of political stability and strong economic growth.

"As the country began to rapidly develop, money that used to be held overseas came back into Cambodia. It flowed into the property market and as people began to trade those assets, we saw phenomenal capital growth," said Australian Rory Hunter, chief executive of the Brocon Group, a top-end Phnom Penh-based property developer.

"You'd be amazed how many Cambodians can buy expensive properties with no financing. They might have had a block of land that was worthless for years and all of a sudden it's worth a lot of money, so they sell it and buy property. For the first time in their lives they're cashed up and can jump into the middle class overnight."



Despite the explosion in property prices in recent years, local analysts say there remains value for investors in the Cambodian property market. Good quality residences can be bought in Phnom Penh for less than €100,000 and with the demand for property so high, most units should quickly appreciate in value.

"Some re-sales have taken place this year on behalf of investors looking for a very early exit and after a twelve month hold, profits have averaged 20 per cent," said Claire Brown of Claire Brown Realty, the Brocon Group's British-based affiliate.

As in any property market, buying in a good location is key. "People looking to the Cambodian property market strictly for investment purposes should keep their eyes fixed firmly on prime areas of the capital," said Brown.

"Buying up cheap property and land in the provinces is highly speculative. Just because regional property is cheap today, it may very well be cheap tomorrow."

Finding the right property is also important. To minimise construction risk and protect investors from the potential of developer insolvency, many high-end investors are buying fully renovated colonial era properties which can be rented out with ease.

Demand for these properties is so high that developers like Brocon are offering a guaranteed rental return of 10 per cent net for the first two years of ownership.

As in Thailand, foreign nationals can only legally own up to 49 per cent of the value of a property in Cambodia, although a new law is expected to be passed soon that will allow foreigners to buy apartments freehold, as long as a maximum of 49 per cent of the whole development is in foreign hands.

As things stand, the country's 1994 Property Law allows non-Cambodians to fully "control" any property they buy via a minority-controlled land holding company. This guarantees de facto ownership through the use of preference shares, pre-signed directors resignation and pre-signed share transfer forms.

Under this type of arrangement, only the 49 per cent of the shares held by the foreign investor are dividend yielding, which ensures that only they benefit from any capital gains.

On the downside, it typically costs several thousand euro in legal and other fees to set up a land holding company in Cambodia. An easier option is to enter a leasehold agreement, where the investor leases the property for 99 years with the option to renew for a further 99 years for one US dollar.

This arrangement is particularly suitable for investors looking to buy and sell quickly or for those looking to earn rental income.

But buyer beware: the Cambodian property market can be a minefield. Cambodia is still a poor country with weak rule of law. Corruption is widespread and Cambodia's haphazard land-titling regime is a common cause of property disputes.

"Sometimes the ownership papers are fake and others will emerge to stake a claim to your property," explained Reber.

Problems can even arise for those buying a new property in one of the country's new multi-unit housing developments. In most cases, the building companies are heavily indebted to the banks, so if the company collapses you might lose your property.



"Buying a property from a developer in Cambodia is like buying a share from the company, the risk is there," said Reber.

Experts say that as well as complying with the law, it's important to learn about how property deals are actually conducted in Cambodia.

According to Reber: "You have to combine those two things. If you just have the paperwork, you are absolutely not safe. You have to make sure there are no problems with the deal because as a foreigner, in the long term you will lose."

The best way to ensure a smooth transaction is to employ the services of a licensed agent or some other trusted Cambodian intermediary.

"Remember that it's their system and they control it, and if you want to access that system you have to have the right person, otherwise you're taking a gamble," Reber said.

"You need to screen it [the property deal] properly and if there is any problem, even the tiniest problem, just forget it, don't get into it. Otherwise it will come back to haunt you."

But for those who do it right, the potential returns from investing in property in Cambodia could far outstrip those available in Ireland today. Most analysts expect the current boom in Cambodia's property sector to continue for at least the next five years and possibly for many years after that.

Fact file

- * Cambodia has a population of 14 million, of which 2.5 million live in Phnom Penh.
- * The climate is tropical, with an average year-round temperature of over 32 degrees.
- * Economic growth has averaged 8.66 per cent for the last three years.
- * Flights from Ireland are via Heathrow to Bangkok and on to Phnom Penh or Siam Reap.
- * There are no viable mortgage options yet for foreigners purchasing Cambodian property. Finance is better organised outside of the country.
- * All funds generated within Cambodia and sent out of the country are subject to a 14 per cent government tax, so rental yields paid into foreign accounts are subject to a 14 per cent tax.
- * On average, investors should allow for about €1,000 in legal fees.

Contacts

Claire Brown Realty: www.clairebrownrealty.com

The Brocon Group: www.brocongroup.com

