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The new Cambodia

Move over Bangkok, Phnom Penh is on its way to becoming the property darling of Asia, says *Andre Cooray*

The growing economy fuelled by thriving tourist, garment and agricultural industries, is a clear sign that Cambodia is coming into its own. All eyes are currently on Phnom Penh, where improving infrastructure, new high-rise condos and the gentrification of the old-colonial French Quarter, is resurrecting the capital from its catastrophic past.

Potential investors should also note that an emerging Cambodian middle class is increasing demand for property in the capital. And at the same time, the now stable government of this tranquil, temple-loving kingdom is making it easier and safer for foreigners to invest.

Claire Brown, the managing director of Claire Brown Realty, gives three key reasons as to why now is an opportune time to be shopping for investment property in Cambodia. Firstly, there is a strong demand on a local and expat level from purchasers and renters alike. The growing middle class forms a healthy portion of the market, and there are more than 12,000 expatriates residing in Phnom Penh alone. Secondly, property prices are still rising steadily (although not at the same rate as before the financial crisis hit). And thirdly, the economy is growing year on year, with a recorded 7 percent growth last year, and over 9 percent growth in each of the previous three years.

“With low taxation, 50 percent of the population under 21 and low costs of setting up offices, factories etc., many multinationals are

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basing themselves in Cambodia. Foreign direct investment was up 300 percent in 2008 compared to 2007, so investing in Cambodian real estate is one smart way to harness the country's growth," explains Brown.

Certain that investors are on to a good thing, Brown also emphasises that property prices will never be so low again. "If you consider the way Bangkok, Kuala Lumpur and Manila have developed over a relatively short timeframe (within five to 10 years) you have a clue as to the potential of Phnom Penh," she says.

Market watchers expect the value of property in Phnom Penh's French Quarter to double (at the least) within two to three years, and while rental returns are healthy, landlords are unlikely to have to deal with void periods as there is no shortage of potential tenants.

Prices for a well-renovated old-colonial property, popular with expatriates and wealthy locals alike, start at US\$98 (HK\$760) per square foot. Rental returns in the French Quarter for these types of homes typically start at 9 percent. A two- storey, 1,112-square-foot townhouse (backing onto the Royal Palace) with original architectural features such as a wrought iron staircase, is currently on the market for US\$110,000. The property comes with a two-year guarantee of 9 percent yields.

In Cambodia, foreigners can buy property on a renewable basis for a maximum of 99 years at a time. "In all our contracts we insert a clause to state that if there is a law change (and this is pending) our investors may purchase the freehold upon request for US\$1," reveals Brown. She contends that for investments under US\$500,000, a leasehold agreement is more than ample. That said, foreign investors can obtain a freehold by opening a Cambodian company.

Brown, whose motto is "due diligence", advises investors to avoid large, four-bedroom properties because they are less in demand and are usually situated in the suburbs away from the capital with its riverside views, boutiques and cafés – making them harder to sell on or rent.

Looking beyond Phnom Penh, Brown has also partnered with Brocon Group, an Australian company that is developing a luxury eco-resort off the coast of Sihanoukville. Called Song Saa – Khmer for "The Sweethearts" – it straddles two islands, Koh Quen and Koh Bong which are connected by a footbridge.

Two-bedroom villas at the resort come in at US\$160 per square foot and returns of at least 10 percent are guaranteed for the first three years. The 2,971-square-foot villas are set against protected reefs and virgin rainforest. "These mega-luxury designer villas start at US\$350,000 – a bargain compared to like-for-like properties in other private island resorts," says Brown. For example, it would cost about US\$1.2 million for a similar villa on Aman Pulu in Palawan, Philippines or US\$2 million in Yao Noi, Thailand.

Song Saa is scheduled to open at the end of next year, and is comparable to the luxury private-island resorts found in the Maldives. There are just 20 over-water and rainforest villas and bungalows to ensure an intimate guest experience, and facilities include a five-star restaurant, west-facing infinity-edge swimming pool, spa and yoga and meditation centre. Guests can explore the resort's own reefs, wander the virgin rainforest or lie on the pure white sands of one of Song Saa's beaches. With more than 20 deserted islands close by, opportunities for offshore adventure also abound.

"We were originally planning on doing a much larger development, though thankfully we hadn't committed to construction when Lehman Brothers crashed in September last year," says Rory Hunter, the CEO of Brocon Group, who has a proven track record with foreign investors having already developed over 25 French Colonial properties in Phnom Penh. "We took some time to let things settle down and then completely changed our strategy to ensure the development would work in the current economic environment. In that way, we were very fortunate with the timing as the resort is now being built for what consumers will want in the coming years, rather than what they could afford during the bull market."

A number of people from Hong Kong (just a few hours flight from Cambodia), have approached Hunter with the intention of investing in Song Saa. He notes that once the Sihanoukville airport fully opens this month, Cambodia's southern coast will be easily accessible to tourists for the first time – unlocking its full commercial potential. Hunter compares the opportunity to invest in Cambodia's islands right now to buying property in Phuket 30 years ago – so imagine how much a prime property could be worth in the future.

It would seem, then, that Cambodia is on the cusp of radical change, and investors are getting ready to cash in. "Transaction volume did suffer mildly with international investors sitting on the fence for most of the fourth quarter in 2008 and the first quarter of 2009 but prices held steady and are now continuing to increase," Brown says. "Interest from international investors is back up to pre-crash levels, plus the interest in Cambodia from the Koreans and mainland Chinese has remained high."