THE NEXT PROPERTY HOTSPOT OR HOT SOUP?

There are many opinions out there, both for and against the seeming real estate boom in Cambodia. In this article, let me add to the fray my thoughts on the factors you should consider when deciding to invest in Cambodia.

When it comes to real estate, we have always believed that the legal framework, regulations, government structures, political stability and economic diversity lay the foundation for long-term, financially sustainable assets.

The Cambodian economy relies on several key industries such as tourism, agriculture, textile, tourism and mineral. While services dominate the economy at about 38% of the GDP, garments and footwear reached US$6 billion in 2014 – a 10.7% growth over the previous year.

Its economic growth is at slightly above 7%, and is forecasted to remain so through 2016. Inflation is averaging about 5% since 1995 to date. From the inflation history chart, inflation seems to be heading into a much more moderated zone from the fluctuations of 2007/2008. This indicates a maturing of the market and greater stability for investors.

The government is investing heavily in infrastructural developments – road

improvements, railways, deep sea ports, etc. The strategic location of the country makes it a key sea route between China, India and Australia.

The current low taxes and pro business environment looks to stimulate its economic growth. As economic growth increases consumption, more companies will be setup and more businesses will bloom, thus creating jobs and prosperity. This will create a greater demand for housing, and therefore house price growth.

However, investors should ensure that the assets they are investing into are aligned with the population segment which the monies are flowing to. As with all developing economies, property prices can quickly run away from local affordability.

Seeing through the lens of Vietnam and Iskandar Malaysia, when prices rose too quickly beyond local affordability, property bubbles can form quickly and pop just as easily. Depending on expatriates or the few wealthy for profits can be highly misleading and risky.

Political stability plays an extremely important role in Cambodia. In most fast growing development nations, some form of undemocratic governance is common as they seek to grow quickly and achieve maturity.

Singapore is one such example where it was able to achieve unmatched growth in 50 years under the same ruling party. Based upon good and well thought out economic policies, Singapore has progressed from a developing country to a power house in Asia and the world within a short time frame.

It is pertinent to mention that Cambodia too has been having the same prime minister for the last 25 years and so has been enjoying political stability. All these might seem rosy from a macroeconomic perspective. But the devil lies in the details. Foreigners are allowed to own properties on the first floor or higher (not the ground floor) and up to 70% of a single strata titled building, or up to 49% of any properties in partnership with a Cambodian entity or citizen. Titles are divided into hard and soft titles, with the former being recognised at the district level and the latter by the Cadastral Office on the national level.

Currently, it is estimated that about 10% of the properties have hard titles, while over 80% are on soft titles with the rest without any titles at all. It will take a while for the government to convert all into hard titles, which offers greater security and can be leveraged for bank financing.

Things are positive, however, on the lending font. Increase competition has led to mortgage rates dropping from 10%-11% in the past to 7%-8% currently. Banks such as CIMB, Hong Leong and ANZ are all active in lending on Cambodian properties at 60%-70% of the property value at tenures of around 15-20 years.

Prices of properties in Phnom Penh average about US$1,400 per square metre, while rent averages at 6.91% for inner city and 5.94% outside the city. With a minimum wage of US$140 and skilled workers paid between US$400-US$500 monthly despite being in shortage, US$1,200 a month is considered high for the locals. Base on a monthly rental of US$400 and that being a 6% yield, fair prices targeting the high income group should be in the range of US$80,000-US$90,000.

Investors should also take note of the current glut of apartments in the market. While that might not deter developers and foreign investors, it might cause the banks to pull back their lending – a sure sign for prices to soften.

In evaluating investment products for our clients, we have always emphasised on three factors – ownership, profitability and manageability. In general, we do not see a significant risk in ownership issues as long as investors stick to projects by reputable developers.

The continual economic growth of the country does seem to point to further income growth, and hence property price growth. However, buying the correct type of property at the right price is key. Lastly, manageability is where many developing markets fail to deliver. This includes property and rental management, tax and accounting, etc.

Finally, being an export driven market, Cambodia's economy will be highly subjected to the global economy. As seen in 2008 during the global financial crisis, its inflation fell from 35% to almost -10%, marking a significant collapse of its economy. Investors must carefully weigh the risk of a global downturn against their investment in Cambodia accordingly

Image Courtesy : **www.expatsandaliens.com**

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