Phnom Penh, Q4 2015

Central Phnom Penh enjoys broad rise in values

Average High-end Condominium Price **$3,024/SQM**

Prime Apartment Rent **$21.8/SQM**

Prime Office Rent **$22.2/SQM**

Prime Retail Mall Rent **$35.3/SQM**

HIGHLIGHTS

Strong take-up across new mid-rise office developments continued over Q4, 2015.

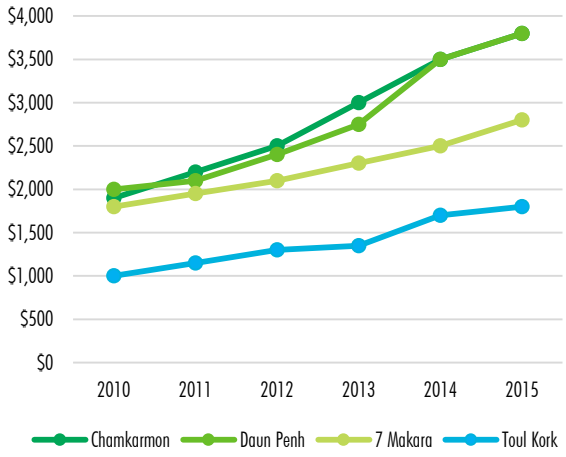
Hongkong Land's mixed-use development, Exchange Square, comprising approximately 18,000 sq.m of office and 8,000 sq.m of retail space, continues construction, with completion on track for Q4, 2016.

Total of 689 condominium units, across 5 projects, announced during Q4, bringing the total number of off-plan condominiums launched over the course of 2015 to 7,014 across 26 buildings.

Total of 5 developments, comprising strata-title office space for sale off-plan, announced over the course of 2015.

Strata-title office space to account for approximately 25% of total office stock by 2020.

Figure 1: Central Phnom Penh Land Values per sq.m (2010-2015)*



*Rounded averages, based on app. 1,000 sq.m land plots

Source: CBRE Research Q4, 2015

OVERVIEW

The Phnom Penh property market continued to see a broad rise in sales and rental values over the course of Q4 2015, with land values across the capital's four central districts rising by an average of 8.4% over the course of the year.

While minimal supply was delivered over the course of Q4, with V-Trust Tower (erstwhile GT Tower) adding approximately 15,000 sq.m of office space, the market witnessed a notable volume of off-plan office sales launches, with a total of 85,000 sq.m, across 5 projects announced over the year. Grade B office rents appreciated by 6.2% over the course of 2015, outperforming increasingly dated Grade C stock and supported by demand from both new entrants and the expansion of established domestic occupiers.

While no significant retail supply was delivered over the course of 2015, Q4 welcomed the arrival of Starbucks, located at Phnom Penh International Airport, in addition to a number of new fashion and accessories entrants.

A total of 689 condominium units, across 5 projects, were announced during Q4, bringing the total number of off-plan condominiums launched over the course of 2015 to 7,014 across 26 buildings.

Average condominium sales prices, across mid-range and high-end categories, broadly appreciated over 2015, with both existing and off-plan mid-range prices rising by 11.1% over the course of the year.

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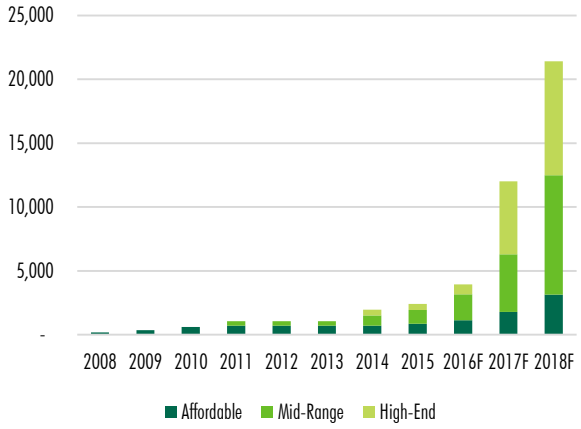
CONDOMINIUM SUPPLY SET TO INCREASE SIGNIFICANTLY THROUGH TO 2018

While condominium supply rose by 22.4% over the course of 2015, with a total of 440 units delivered across secondary locations, the overall figure is set to rise significantly by 2018, with an additional 19,018 units, equating to an approximately 794% increase, bringing total supply to 21,414 units by the end of 2018.

The majority of planned condominium projects fall into either the 'mid-range' or 'high-end' categories, due to account for 44% and 42% of overall supply by Q4 2018, respectively.

Figure 2: Phnom Penh Condominium Supply by Grade (2008-2018F)



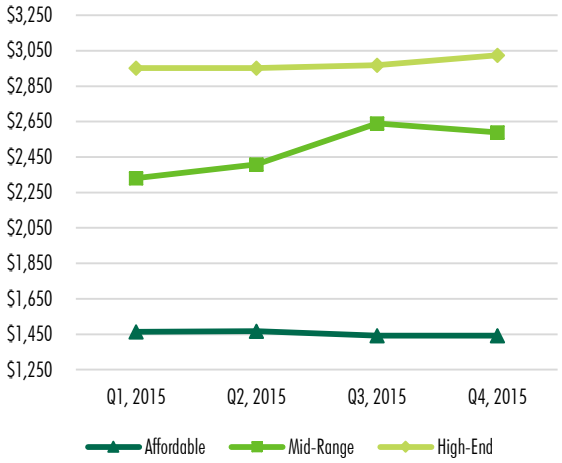
Source: CBRE Research Q4, 2015

AVERAGE PRICES BROADLY APPRECIATE OVER COURSE OF 2015

Average prices broadly appreciated over the course of 2015, with 'mid-range' condominiums seeing the greatest fluctuation, demonstrating an overall year-on-year rise of 11.1%.

The average price of high-end condominiums, both in terms of existing stock and off-plan sales, rose by 2.5%, with sales prices of affordable stock depreciating by 1.4%, on average, over the course of the year.

Figure 3: Average Price per sq.m of Phnom Penh Condominiums over 2015



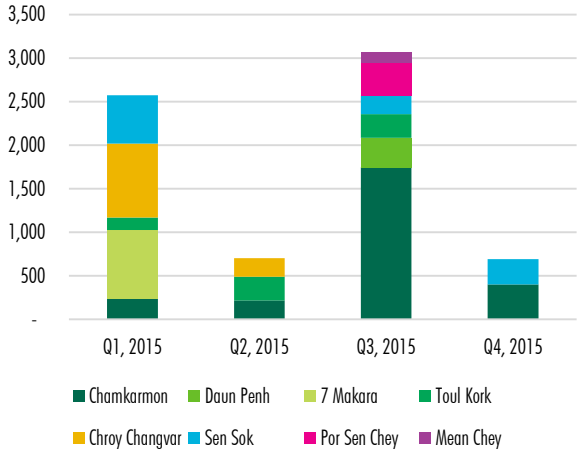
Source: CBRE Research Q4, 2015

DEVELOPERS ANNOUNCE PROJECTS OUTSIDE OF PRIME LOCATIONS

While the traditionally prime residential area of Chamkarmon saw the greatest volume of condominium units launched for sale off-plan, with a total of 2,597 units accounting for a 37% share, secondary locations, such as Chroy Chang Va and Sen Sok, accounted for approximately 15% of total units announced each, respectively, over 2015.

A lack of available land plots, in addition to increasingly high prices in central districts, is likely to drive further development activity to secondary locations over the course of 2016 and 2017.

Figure 4: Number of Off-plan Condominium Units Announced by District in 2015



Source: CBRE Research Q4, 2015

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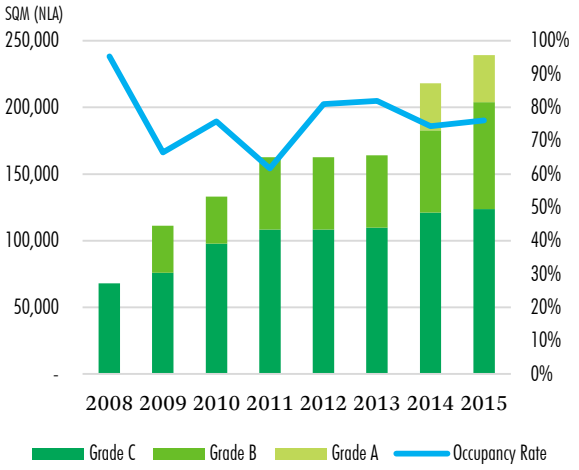
OCCUPANCY STRENGTHENS IN WAKE OF NEW GRADE B SUPPLY

The overall occupancy rate for office space stands at approximately 76%, with vacancy levels at one building continuing to adversely impact the overall average. Steady take-up of new Grade B stock is supporting overall occupancy in the wake of newly delivered supply over the course of 2015.

As of Q4 2015, the majority of supply is considered to be of Grade C quality, accounting for 52% of total leasable stock. Grade B and A space account for 33% and 15% of total leasable space, respectively.

Figure 5: Phnom Penh Office Supply by Grade (2008-2015)



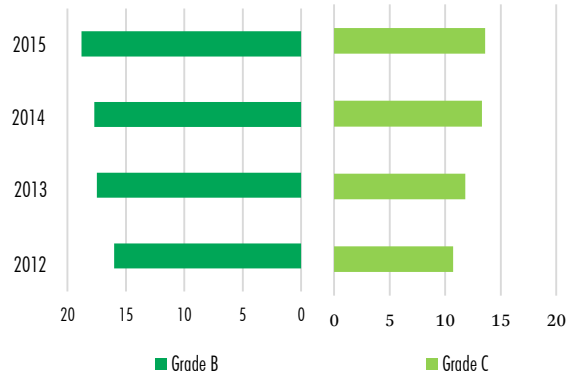
Source: CBRE Research Q4, 2015

QUALITY PHNOM PENH OFFICE SPACE ENJOYING STEADY RENTAL RATE GROWTH

Office buildings, across both B and C grades, have largely seen a steady growth in rental rates since 2012, with Grade B quoting rents rising by 6.2% and Grade C by 2.3% year-on-year, respectively.

Quoting rents for Grade A space currently stands at approximately US$28 per sq.m, exclusive of service charge.

Figure 6: Average Quoting Rental Rates (USD/SQM/Month)



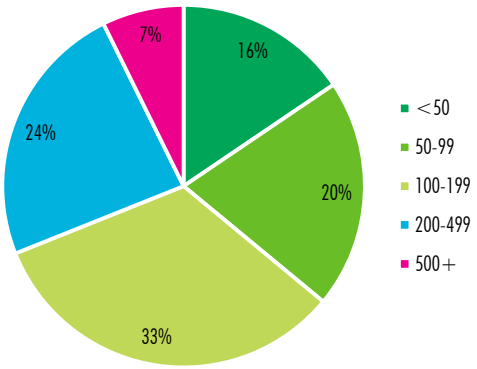
Exclusive of service charge

Source: CBRE Research Q4, 2015

MAJORITY OF OCCUPIER REQUIREMENTS BETWEEN 50-199 SQ.M

The majority of Phnom Penh office occupiers currently lease space of between 50 to 199 sq.m, accounting for 53% of all tenancies. Demand for significant office space, in excess of 500 sq.m, remains driven by the insurance, accounting and logistics sectors.

Figure 7: Occupier Demand by Sq.m Leased (Q4, 2015)



Source: CBRE Research Q4, 2015

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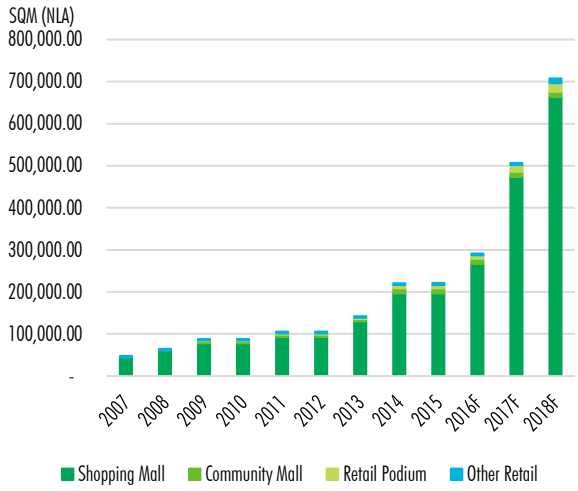
QUALITY RETAIL SUPPLY SET TO INCREASE THROUGH TO 2017

Retail supply in the capital is set to rise significantly by the end of 2017, driven by a combination of new international shopping complexes, such as Parkson's Phnom Penh City Centre, delivering 57,000 sq.m in Q4, 2016 and Lion City, the second project by the Malaysian developer, set to provide a further 61,000 sq.m of retail space over the course of 2017. In addition, Hongkong Land's Exchange Square is on track to deliver 8,000 sq.m of leasable retail space in Q1, 2017.

Figure 8: Retail Supply by Type (2007 – 2018F)

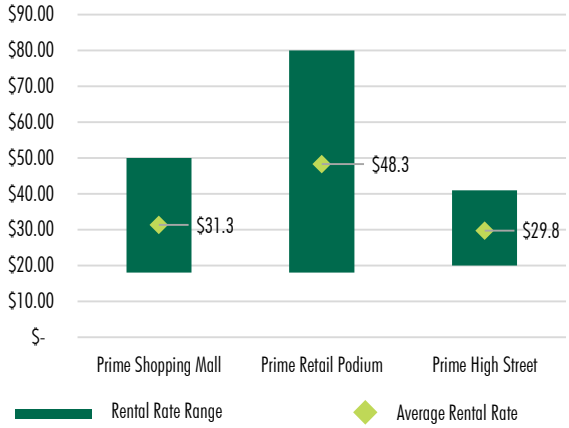


Source: CBRE Research Q4, 2015

RENTS REMAIN STABLE ACROSS PRIME RETAIL SPACE

Rents remained broadly stable over the course of 2015, with average rents for quality shopping malls and prominent high-street locations standing at approximately US$31.50 and US$29.80 per sq.m, per calendar month, respectively. Achieved rents are noted to have fallen within aging retail stock, most notably when located outside of central Phnom Penh districts, as demand for quality, prime stock increases amongst both domestic and international retailers.

Figure 9: Quoting Rental Rate by Type as of Q4/2015



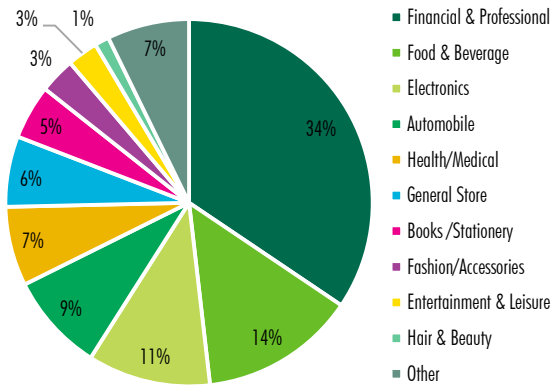
Source: CBRE Research Q4, 2015

INTERNATIONAL BRANDS TAKING UP PROMINENT HIGH-STREET POSITIONS

Phnom Penh's prime high-street locations, across both Monivong and Sihanouk Boulevards, continued to witness a notable transformation over the course of 2015, with international food and beverage/fashion and accessories brands expanding their presence.

We expect food and beverage uses, currently accounting for 14% of prime high-street space, to further increase, as new international brands continue to expand their requirements over the course of 2016.

Figure 10: Retail Uses Across Prime High-Street Locations (Q4, 2015)



Source: CBRE Research Q4, 2015

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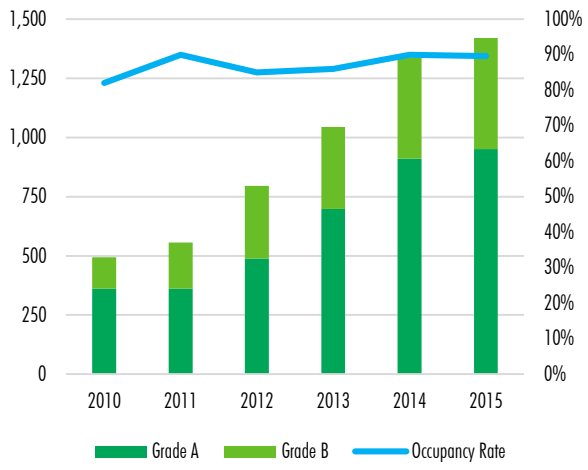
OCCUPANCY OF GRADE A AND B SERVICED APARTMENTS HOLDS STABLE

The overall occupancy rate for grade A and B serviced apartment buildings held stable over the course of 2015, averaging at approximately 90%. No new supply came on-stream over the course of Q4 2015, with only 84 units, located in Daun Penh and Chamkarmon, delivered over the course of the year.

As of Q4, 2015 the majority of premium serviced apartment units would be considered of Grade A quality, accounting 67% of stock compared to Grade B units at 33%.

Figure 11: Supply by Grade and Average Occupancy (2010-15)



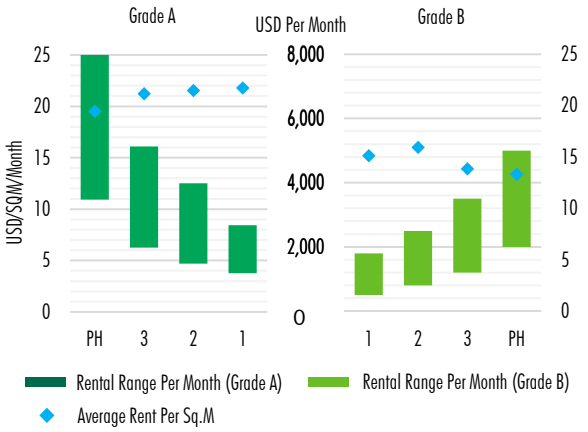
Source: CBRE Research Q4, 2015

GRADE A APARTMENT RENTS CONTINUE TO PERFORM WELL

Rental rates across prime Phnom Penh serviced apartment stock range from US$500 Per Calendar Month (PCM), for a one-bedroom Grade B apartment, through to US$8,000 PCM for a flagship penthouse unit, as of Q4, 2015.

Average rates per square meter range from US13.30, based on Grade B penthouse units, through to US$21.80, based on Grade A one-bedroom units.

Figure 12: Rental Rate Range by Bedrooms, Type / Grade (USD/Month)

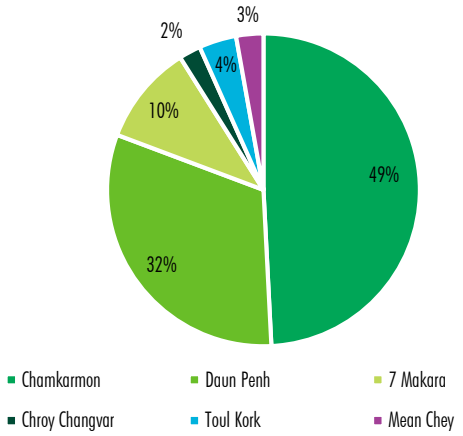


Source: CBRE Research Q4, 2015

SERVICED APARTMENT STOCK LOCATED IN PRIME RESIDENTIAL DISTRICTS

The vast majority of Phnom Penh's existing prime serviced apartment stock is located in the capital's key districts of Chamkarmon and Daun Penh, collectively comprising 81% of overall Grade A and B units as of Q4, 2015. It is likely that 7 Makara, which currently accounts for 10% of high-end stock, will take a greater market share over 2017 to 2018, based on current construction activity.

Figure 13: Grade A and B supply by District (Q4, 2015)



Source: CBRE Research Q4, 2015

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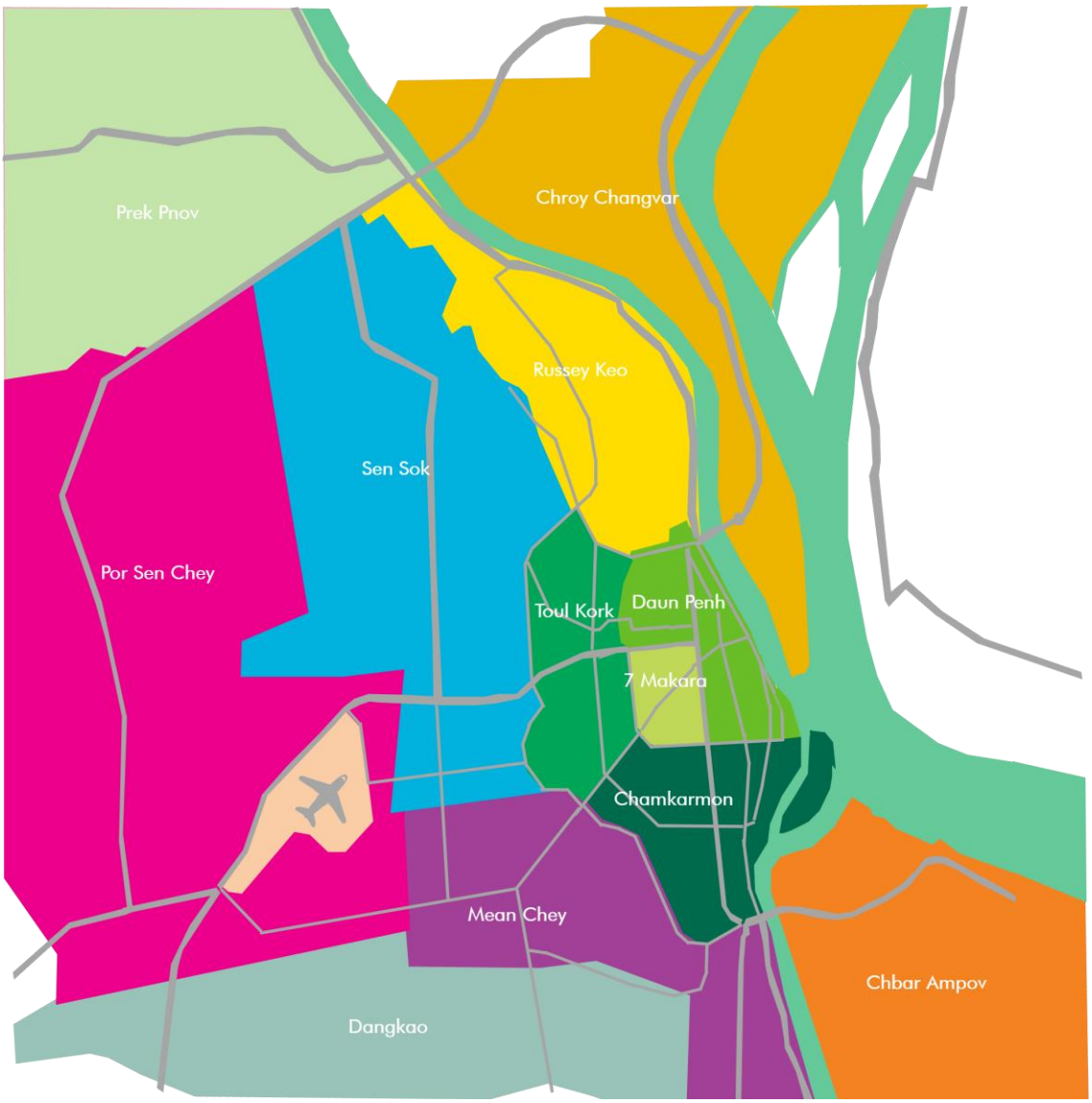

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