INTERNATIONAL RELATION INSTITUTE OF CAMBODIA

A STUDY
OF
THE IMPACT OF THE REAL ESTATE BUBBLE GROWTH
IN CAMBODIA

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ABSTRACT

This study investigates on the impact of the real estate bubble growth in Cambodia. The main research question in this study is what is the primary impact to the low and middle class people in Cambodia and how can this country implement strategic action to improve its local market? To facilitate the main research questions three-sub questions are addressed. The first sub question determines what is the current situation in the real estate market? The second sub question investigates what are the factors that lead to the fast growing in the real estate market? And the third sub question explores what are the factors that lead to the rapid decline in the real estate market? The research method used to gather data for this study is a qualitative method with a thorough review of literature on the definition of the bubble economy, real estate bubble and document reviews of publications, organization reports, newspaper articles, business surveys, real estate magazine, online information and the encyclopedia.

The review of literature and document reviews show that stable economic growth, political stability, banking industry development, foreign direct investment, incentives and regulation from the royal government are the key factors to the real estate market boom in Cambodia. The world economic slowdown and global financial crisis and internal factor in the country such as the political situation during the national election, border tension between Thailand and Cambodia, strict regulation from the royal government are the consequences that led to the rapid decline of this market.

Because of both the external and internal affect on the real estate market, this sector had reached maturity in mid of 2008 and then continued declining up to the present. People living in middle and low class level were impacted by this bubble situation. Impact to the society and economy are force movement of the house’s owner in some places, increasing numbers of unsolved land/property disputes, poor infrastructure, more fixed asset which is not easy to liquid, less business initiation or start up, people tend to save money rather than spending on something that is not necessary, low access to the education and more unemployment. The document reviews and studies conducted by researcher recommend the following: enhance the higher level of customer’s confidence for this market by maintaining a sound banking system and protect customers from any fraudulent projects by some companies, maintain a suitable level of property’s price by introducing a real estate law as well as real estate association, and promote the investment by trying to keep the property price at a reasonable level.
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Context of the problem

Cambodia has enjoyed a consolidating rapid growth over the last 2 years. The economy expanded strongly in 2006, reflecting robust clothing exports, tourism receipts, and construction activity. Forecast growth averaging over 9% in the next 2 years will be more dependent on strengthened domestic economic activity, itself underpinned by improved rural incomes, larger inflows of foreign direct investment (FDI), and greater government capital spending. Gross domestic product (GDP) growth in 2006 was at 10.4%, consolidating double-digit growth of the 2 previous years. The outturn was buttressed by stronger industrial production and robust expansion in services and construction activity (ADB, 2007, page1).

Based on the assumption, GDP growth is at 9.5% in 2007 and 9.0% in 2008. The revised expected growth is 6.5 percent in 2008, and a further slowing in 2009 to around 4.75 percent (IMF, 2008, page 1).

In the real estate sector, construction activity is likely to keep expanding with planned construction of a new town, bridges across the Tonlé Sap and Mekong rivers, and a number of special economic zones. These zones will be on Cambodia’s borders with Thailand and Viet Nam, where they can take advantage of lower-cost electricity from those countries and transport costs also will be lower. An important contributory factor is that economic growth has been narrowly based on clothing and tourism (ADB, 2008). The prospect for future growth will be dependent on the foreign direct investment.
From 2006-2008, the numbers of investment project have increased remarkably especially in the real estate sector where most of the investors are from Korea. In the recent years, Cambodia has experienced a boom in property prices, leading many rural and urban residents to sell off their land at very high prices, raising rents and values, and boosting the construction sector (CPL properties news, 2008, page 1 and 4).

After the national election in July 2008, the prospect for the real estate seems to be uncertain. Property prices in Cambodia's once-booming real estate market have fallen by as much as 20 percent since June, a real estate expert (VOA Khmer, November 2008). The global financial crisis, the Thai-Cambodia border standoff and loan restrictions set out by commercial banks were all contributing to a fall in prices and the investment project in this country (VOA Khmer, November 2008). The property bubble was now of concern, especially considering the bust of the US housing market, which has led to a global financial crisis and impact on every country in the world.

Statement of the problem

With numerous real estate investment projects in Cambodia, it had significantly contribute to the national economic development but on the contrary there are some projects were on hold due to the external and internal impact to the Cambodia economy especially the global financial crisis and the local people’s confidence in doing business in this sector.

Few studies and dialogs have been conducted to determine the challenges that are faced when it comes to improving in this real estate sector. This study will address the problems of impact of the bubble real estate to the middle and low class people. The key
real estate obstacles need to be identified as well as current challenges so that its impact will be monitored.

Purpose of the Study

The purpose of this study is to find out what are the best solutions in response to this kind of impact, and what future actions should be taken in order to avoid its repetition?

Research Questions

Real estate is the core supporting infrastructure to the foreign direct investment for developing countries. The purpose of this study is to define the steps required to improve the real estate sector as well as its impact to the target people. This study will be guided by the following:

Main research question:
What is the primary impact to the low and middle class people in Cambodia and how can this country implement strategic action to improve its local market?

Sub questions:
1. What are the factors that lead to the fast growing in the real estate market?
2. What is the current situation in the real estate market?
3. What are the factors that lead to the rapid decline in the real estate market?

Significance of the study

Real estate is the fast growing but also a rapid declining market. With this high and low fluctuation, it is not a sustainable growth and its impact is huge within a period
of time. Some people were wondering why its maturity is so short. It could be a result of losing the confidence and trust that could lead to the profitability for the long run.

The bust of the US housing market that cause to the bankruptcy of the major financial institution of Lehman Brothers in the United States and some commercial banks within this country too (CNBC News, 2008, para. 1). The growth without proper management and strict regulation by the government on the private sector will have a major future impact to other sectors subsequently. This is a good lesson learnt for Cambodia as well as other countries in the world.

The price of the real estate value in the neighboring countries is higher than in Cambodia and most of those countries developed this kind of market long ago. In fact in Vietnam, the market started booming since 1991 and in Thailand is quite longer than Cambodia. Comparing at the same location level among the neighboring countries, a leading real estate business suggests the price of prime Phnom Penh land doubled last year (2007) to $3,000 per square meter - compared with less than $500 in 2000. In contrast, Land in the Bangkok downtown district is $5,000 per square meter, while Ho Chi Minh City, the hub of a red-hot economy in Vietnam, prices can be as high as $15,000. The price varied by the level of business location (International Herald Tribune, November 2008).

The domestic financial services industry is growing fast - private-sector lending by Cambodia's 20 or so banks grew 60 percent last year - but remains too small to be financing projects valued in the hundreds of millions of dollars. Instead, analysts say, much of the funding is Cambodian cash stuffed into mattresses, locked up in gold, or squirreled away in anonymous offshore bank accounts for years. (ABC News, January
2008, Para. 13-14). This kind of development was not yet sustained in order to cope with the booming real estate and therefore it could be a major obstacle to the development of the investment project. The final consequence would be the people.

To the extent this study identifies the primary obstacles detrimental to the real estate growth and provides for an in-depth analysis into the improvement strategy to minimize the negative impact. In accordance with that abovementioned significance, by utilizing a study such as this one, all sectors will have a better picture of the recent development and how Cambodia can handle this impact successfully.

Research Design and Methodology
Impact and Productivity Study

Problem setting will be done according to the objective of the study, which focuses on the impact of the bubble real estate market to the low and middle class people. For literature review, the details should be answered on what are the bubble economy and bubble real estate growth? And what are the lessons learnt from the United States context in recent years?

Target group of this study will be real estate companies/agents, the National Valuers Association of Cambodia, low and middle class people used this kind of service. Scope of the study will be done only with the people living in Phnom Penh and urban and peri-urban areas. Primary data will be collected with regard to the sources of information in Cambodia that involve with both government (ministry of land management, urban planning and construction, national bank of Cambodia (NBC), Phnom Penh municipality) and private
sector (real estate companies/agents, informal real estate, Cambodia real estate association. Newspaper: the Cambodia Daily, the Phnom Penh Post, the Mekong Times, Kohsantepheap daily newspaper, www.cambodia.org, www.propertywire.com, Cambodia News Vision at www.cnv.org.kh). To further support the research, the sources of information from the civil society and independent research institutions such as Cambodia development resource institution, Asian Development Bank (ADB), International Monetary Fund (IMF), the World Bank, will also be referred. Qualitative method basis will be used in order to analyze the results of this research study.

Research Methodology:

The qualitative method, based on both the primary and secondary data, will be used for writing this research. The main question will be answered through the analysis of the research finding as a result of the comparison between theory and practice as well as between the international and local market and the negative effect as consequences from the recent economic slow down in Cambodia. To answer the sub questions about the cause and effect to the real estate bubble growth, the researcher will study on the secondary data which was collected from the sources of reliable information as above-mentioned.
Chapter II

Literature Review

This literature review will be presented information on the definition of the bubble economy, real estate bubble and its actual situation in the United States, and the Cambodia economy, and brief situation of the real estate in Cambodia.

The term “bubble economy” means rapidly rising economy or an economy experiencing unusually rapid and often temporary growth as indicated by rising securities prices and increased employment (Microsoft Encarta, 2008). “Real estate bubble” is a type of economic bubble that occurs periodically in local or global real estate markets. It is characterized by rapid increases in valuations of real property such as housing until they reach unsustainable levels relative to incomes and other economic elements (Wikipedia, 2008).

The United States housing bubble is an economic bubble in many parts of the United States housing market including areas of California, Florida, Colorado, Michigan, the Northeast Corridor, and the Southwest markets. On a national level, housing prices peaked in early 2005, began declining in 2006 and may not yet have hit bottom. Increased foreclosure rates in 2006–2007 by U.S. homeowners led to a crisis in August 2008 for the sub prime, Collateralized debt obligation (CDO), mortgage, credit, hedge fund, and foreign bank markets. Housing bubbles may occur in local or global real estate markets. They are typically characterized, in their late stages, by rapid increases in the valuations of real property until unsustainable levels are reached relative to incomes, price-to-rent ratios, and other economic indicators of affordability. This may be followed
by decreases in home prices that can result in many owners holding negative equity—a mortgage debt higher than the value of the property. The underlying causes of the housing bubble are complex; factors include historically-low interest rates, lax lending standards, and a speculative fever. This bubble may be related to the stock market or dot-com bubble of the 1990s. This bubble is roughly a coincident with real estate bubbles in the United Kingdom, Spain and even South Korea (Wikipedia, 2008, para. 1-2).

Bubbles may be definitively identified only in hindsight, after a market correction, which began for the U.S. housing market in 2005–2006. Former U.S. Federal Reserve Board Chairman Alan Greenspan said "we had a bubble in housing" and also said in the wake of the sub prime mortgage and credit crisis in 2007, "I really didn't get it until very late in 2005 and 2006." The mortgage and credit crisis was caused by a large number of home owners unable to pay the mortgage as their low introductory rate (sub-prime) mortgages reverted to regular interest rates. Freddie Mac CEO Richard Syron concluded, "We had a bubble", and concurred with Yale economist Robert Shiller's warning that home prices appear overvalued and that the correction could last years with trillions of dollars of home value being lost. Greenspan warned of "large double digit declines" in home values "larger than most people expect.” Problems for home owners with good credit surfaced in mid-2007, causing the U.S.'s largest mortgage lender Countrywide Financial to warn that a recovery in the housing sector is not expected to occur at least until 2009 because home prices are falling "almost like never before, with the exception of the Great Depression." The impact of booming home valuations on the U.S. economy since the 2001–2002 recession was an important factor in the recovery because a large component of consumer spending came from the related refinancing
boom, which simultaneously allowed people to reduce their monthly mortgage payments with lower interest rates and withdraw equity from their homes as values increased. Any collapse of the U.S. Housing Bubble has a direct impact not only on home valuations, but the nation's mortgage markets, home builders, real estate, home supply retail outlets, Wall Street hedge funds held by large institutional investors, and foreign banks, increasing the risk of a nationwide recession. Concerns about the impact of the collapsing housing and credit markets on the larger U.S. economy caused President George W. Bush and Chairman of the Federal Reserve Ben Bernanke to announce a limited bailout of the U.S. housing market for homeowners unable to pay their mortgage debts (Wikipedia, 2008, para. 3).

In 2008 alone, the United States government allocated over $900 billion to special loans and rescues related to the US housing bubble, with over half of those going to the quasi-government agencies of Fannie Mae, Freddie Mac, and the Federal Housing Administration (Wikipedia, 2008).

An Overview of Cambodia’s Economy

Consolidating rapid growth over the last 2 years, the economy expanded strongly in 2006, reflecting robust clothing exports, tourism receipts, and construction activity. Forecast growth averaging over 9% in the next 2 years will be more dependent on strengthened domestic economic activity, itself underpinned by improved rural incomes, larger inflows of foreign direct investment, and greater government capital spending (ADB, 2007, para. 1).
GDP growth in 2006 is estimated at 10.4%, consolidating double-digit growth of the 2 previous years. The outturn was buttressed by stronger industrial production and robust expansion in services and construction activity. GDP per capita was increased from 583$ in 2007 to 625$ in 2008 and the poverty rate is expected to reduce by 1% every year and according to the report it is now below 30% comparing to 36% in last decade (Reaksmey Kampuchea Newspaper, 2008, page k3).

In industry, clothing exports grew by an estimated 32% in volume terms as manufacturers took advantage of temporary safeguard measures imposed against clothing exports from the People’s Republic of China by the United States and the European Union. Construction activity remained relatively strong due to a boom in residential and commercial buildings in Phnom Penh and Siem Reap. Growth in services was bolstered by solid increases in tourist arrivals. Agricultural production expanded by a stronger than expected 4.4% from the record levels achieved in 2005. This was mainly the result of an increase in land under irrigation. (ADB, 2007, page 1).

On the demand side, growth was supported by a rise in private investment reflecting growing investor confidence in future economic prospects, and in the Government’s ability to maintain economic and political stability. Growth was also helped by a switch to a contribution from net exports because of a narrower external deficit.

Budgetary performance continued to improve in 2006 with the overall fiscal deficit estimated at 2.4% of GDP, narrowing sharply from the recent trend deficit. The deficit is 1.5% of GDP if proceeds from IMF’s Multilateral Debt Relief Initiative are included. Government revenues grew strongly to 11.6% of GDP from 10.4% in 2005, mainly
because of an increase in tax collections. The private credit surge was fueled essentially by greater demand for loans for construction, real estate, and wholesale and retail trade, though an increased number of small and medium enterprises also borrowed for business expansion. The increase in net foreign assets of the banking sector reflected a more favorable external balance, and receipts from IMF’s Multilateral Debt Relief Initiative. In line with the stronger fiscal performance, the Government did not need to tap domestic banks to finance the budget deficit. The central bank continued to intervene in the foreign exchange market to stabilize the riel, which appreciated by 1.3% in 2006 to 4,061/$1 by year-end. (ADB, 2007, page 1).

Inflation slowed by about 1 percentage point to average 4.7% in 2006. Its fall was mainly a consequence of more moderate rises in food prices, as rice production increased and world market prices for rice stabilized. An easing of international oil prices in the last quarter of 2006 also helped. Year-end inflation at 2.8% showed a downward trend moving into 2007 (ADB, 2008).

Overall, Cambodia has been going through a stage of resource exploitation, starting from a very low base after it was brought back into the mainstream of world society following the UN-run national elections in 1993. This has fuelled growth of the real estate sector and raised effective demand for consumption and investment.

The construction sub-sector has expanded markedly during the past several years. Factors driving this growth include political stability, the robust economic performance, a boom in real estate contributed to by FDI and speculation and continuing assistance from the international community for infrastructure development. However, some concern has been expressed as to whether there is over-investment in housing in Phnom Penh, since
the high prices of apartments and the low class of the average Cambodian make it unclear where the demand might come from for the 8000 to 10,000 apartments built each year. Also it is a question whether the high price of housing reflects fundamental factors or is a consequence of speculation. If it is due to speculation, price distortion could create inefficiencies and hamper economic development. As will be elaborated later in this chapter, a related issue is that even though the sub-sector generated more employment, it can not provide sufficient income for its workers. With a daily wage of USD2-3, construction workers are generally vulnerable and poor. (ADB, 2008, page 56).

Real estate and business services posted healthy growth, but it was the expansion of the former that contributed most to the growth of this sub-sector. The real estate market has sky-rocketed in the past few years to questionable levels.

The services sector, which accounts for 38.2 percent of GDP and employs 26.0 percent of the labor force, grew by 10.3 percent in 2006, compared to 12.7 percent in 2005. All sub-sectors contributed to this healthy growth, but the main contribution came from trade, hotels and restaurants, real estate and business services and other services. With greater demand from non-bank businesses, including manufacturing, construction, real estate and utilities, it causes to the rise of private credit. (ADB, 2008, page 56).

Table 3 Real estate development in the services sector growth 2000-06

Chapter III
Research Design and Methodology

This study was conducted utilizing the qualitative research design. The researcher conducted document reviews as the primary source of data, both electronic and non-electronic sources, from three sectors of the society (government, private sector and civil society): a report from the survey or research or seminar from the ministry of land management and ministry of land management, urban planning and construction (land management in urban and peri-urban areas, integrating land issues into the development agenda, country case study, Cambodia), NBC (Financial report contributed by all sectors), Phnom Penh municipality (real estate and construction’s statistic report) etc. In the private sector which includes real estate companies/agents, informal real estate, Cambodia real estate association’s publication report, and newspapers article in national and international context, and Wikipedia encyclopedia. In the civil society and independent research institutions such as Cambodia development resource institution (CDRI) on the annual development, quarterly review or flash report on the statistic of the investment and construction statistics, ADB economic publication report, IMF periodical evaluation on the Cambodia economy, and the World Bank’s publication report.

The researcher also found some of the policies and strategies that should be implemented in order to measure the impact by performing a thorough research of document reviews.
Chapter IV

This chapter gives the results of the document reviews, including case studies, publications and reports, newspaper articles, encyclopedia, and the Internet addressing this study’s research main and three sub questions.

The main question is:

What is the primary impact to the low and middle class people in Cambodia and how can this country implement strategic action to improve its local market?

Sub questions:

1. What is the real estate market especially its current situation?
2. What are the factors that lead to the fast growing in the real estate market?
3. What are the factors that lead to the rapid declining in the real estate market?

The real estate market especially its current situation

Construction in the real estate, tourism and garment industry play a very important role in the city development. For the past few years, real estate and business services had healthy grown with the investment from foreign country especially from Korea, China, France etc. This market started declining since the national election in July 2007 which at the same time with the border tension between Thailand and Cambodia as well as an emergence of the financial crisis in the world market (CPL properties news, 2008).

There are some concerns whether there is over-investment in housing in Phnom Penh, since the high prices of apartments and the low class of the average Cambodian,
make it unclear where the demand might come from for the 8,000 to 10,000 apartments built each year. Also it is a question whether the high price of housing reflects fundamental factors or is a consequence of speculation. According to the report from the UN-HABITAT, Cambodian needs around 10,000 residents each year in order to answer to the need of its people. (UN-HABITAT, 2008).

Construction is one-third public construction, including infrastructure construction, and two-thirds private, including factory buildings and expansion, hotels and housing. Private construction has been increasing, particularly in urban areas. Much of the increase is in construction of flats and hotels, guesthouses and factories. Below table shows that the value of construction in Phnom Penh, especially flats, has been on an upward trend since the third election in 2003. The number of new flats in Phnom Penh is estimated to be 8000 to 10,000 annually. The numbers of guesthouses and hotels is also increasing to meet the increase of tourist arrivals (ADB, 2008, page 45).

Table 4-1 Construction in Phnom Penh (USD million)

![Table showing construction trends](image)

So far, the real estate companies in Cambodia had reached the number of 69 who were recognized by the government (Khmer property news, December 2008, page 5). Currently, Cambodia has over 500 property firms, of which only around 30 are registered (Event magazine, November 2008, page 30).

In order to promote the declining real estate sector, Cambodia, the whale group company with support from the ministry of commerce, ministry of land management, urban planning and construction, Cambodian federation of employers and business association, had initiated an idea by organizing the first real estate expo in November 2008. In this event, thousands of people participated in the exhibition made by the real estate companies, developers, construction companies, banks, insurance companies and interior designers in Cambodia (Khmer property news, December 2008, page 12).

It is not sure whether the market already reached the bottom after reaching the maturity in mid of 2008 and nobody can forecast when will this market could bounce back.

The price of the flat and villa for both sale and rent in the city had remarkably increased; please see below tables for details.

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**Table 4-2 Value of construction project approvals in Phnom Penh, 2001-07**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<th>2006</th>
<th>2007</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Villas and houses</strong></td>
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</tr>
<tr>
<td>USD m</td>
<td>15.9</td>
<td>22.4</td>
<td>20.0</td>
<td>30.3</td>
<td>45.5</td>
<td>30.1</td>
<td>5.7</td>
<td>7.6</td>
<td>9.7</td>
<td>14.4</td>
<td>22.8</td>
<td>21.7</td>
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<tr>
<td><strong>Flats</strong></td>
<td>167.8</td>
<td>179.9</td>
<td>91.6</td>
<td>167.6</td>
<td>204.2</td>
<td>204.2</td>
<td>51.8</td>
<td>67.1</td>
<td>54.5</td>
<td>88.9</td>
<td>33.2</td>
<td>117.5</td>
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<td></td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>12.6</td>
<td>16.6</td>
<td>97.3</td>
<td>65.6</td>
<td>109.1</td>
<td>17.4</td>
<td>24.7</td>
<td>20.8</td>
<td>13.9</td>
<td>35.9</td>
<td>88.8</td>
<td>40.6</td>
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<tr>
<td><strong>Total</strong></td>
<td>196.3</td>
<td>239.9</td>
<td>188.9</td>
<td>263.5</td>
<td>358.8</td>
<td>67.4</td>
<td>82.2</td>
<td>95.5</td>
<td>78.2</td>
<td>139.2</td>
<td>144.7</td>
<td>179.7</td>
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<th></th>
<th>Percentage change from previous quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-6.2%</td>
</tr>
<tr>
<td><strong>Percentage change from previous year</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>22.2%</td>
</tr>
</tbody>
</table>

Source: Department of Cadastre and Geography of Phnom Penh municipality
**Market appraisal for the flat and villa: for sale and rental purpose.**

Table 4-3 Housing, market appraisal for sale, flats type (size 4m x 16m)

<table>
<thead>
<tr>
<th>For Sale</th>
<th>Ground Floor</th>
<th>Ground Floor + 1st Floor</th>
<th>Ground Floor + 3rd Floor</th>
<th>1st and 2nd Floor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Areas</td>
<td>$180,000-$250,000</td>
<td>$250,000-$350,000</td>
<td>$300,000-$550,000</td>
<td>$30,000-$50,000</td>
</tr>
<tr>
<td>Sub commercial areas</td>
<td>$150,000-$200,000</td>
<td>$170,000-$230,000</td>
<td>$200,000-$300,000</td>
<td>$30,000-$40,000</td>
</tr>
<tr>
<td>Around central market</td>
<td>$250,000-$350,000</td>
<td>$350,000-$450,000</td>
<td>$450,000-$600,000</td>
<td>$35,000-$50,000</td>
</tr>
<tr>
<td>Residential Areas</td>
<td>$70,000-$100,000</td>
<td>$100,000-$170,000</td>
<td>$150,000-$200,000</td>
<td>$30,000-$40,000</td>
</tr>
</tbody>
</table>

Table 4-4 Housing, market appraisal for sale, villa type (size 17m x 28m)

<table>
<thead>
<tr>
<th>For Sale</th>
<th>Small Villa (1 floor)</th>
<th>Modern Style (2 floors)</th>
<th>Khmer Style (2 floors)</th>
<th>French Style (2 floors)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Areas</td>
<td>$900,000-$1,300,000</td>
<td>$1,000,000-$1,500,000</td>
<td>$800,000-$1,300,000</td>
<td>$1,000,000-$1,400,000</td>
</tr>
<tr>
<td>Sub commercial areas</td>
<td>$800,000-$4,000,000</td>
<td>$900,000-$1,200,000</td>
<td>$700,000-$1,000,000</td>
<td>$850,000-$1,300,000</td>
</tr>
<tr>
<td>Residential Areas</td>
<td>$550,000-$800,000</td>
<td>$700,000-$1,000,000</td>
<td>$600,000-$900,000</td>
<td>$800,000-$1,000,000</td>
</tr>
</tbody>
</table>

Table 4-5 Housing, market appraisal for rent, flats type (size 4m x 16m)

<table>
<thead>
<tr>
<th>For Rent</th>
<th>Ground Floor</th>
<th>Ground Floor + 1st Floor</th>
<th>Ground Floor + 3rd Floor</th>
<th>1st and 2nd Floor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Areas</td>
<td>$650-$1,000</td>
<td>$800-$1,200</td>
<td>$800-$1,500</td>
<td>$200-$400</td>
</tr>
<tr>
<td>Sub commercial areas</td>
<td>$500-$800</td>
<td>$800-$1,000</td>
<td>$800-$1,200</td>
<td>$200-$400</td>
</tr>
<tr>
<td>Around central market</td>
<td>$800-$1,500</td>
<td>$1,000-$1,800</td>
<td>$1,200-$2,000</td>
<td>$200-$400</td>
</tr>
<tr>
<td>Residential Areas</td>
<td>$250-$350</td>
<td>$300-$400</td>
<td>$400-$600</td>
<td>$150-$300</td>
</tr>
</tbody>
</table>
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Table 4-6 Housing, market appraisal for rent, villa type (size 17m x 28m)

<table>
<thead>
<tr>
<th>For Rent</th>
<th>Small Villa (1 floor) 3-4 rooms</th>
<th>Modern Style (2 floors) 4-7 rooms</th>
<th>Khmer Style (2 floors) 4-10 rooms</th>
<th>French Style (2 floors) 3-5 rooms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Areas</td>
<td>$950-$1,500</td>
<td>$1,800-$3,000</td>
<td>$1,500-$2,000</td>
<td>$1,500-$3,000</td>
</tr>
<tr>
<td>Sub commercial areas</td>
<td>$950-$1,200</td>
<td>$1,500-$2,300</td>
<td>$1,500-$2,000</td>
<td>$1,500-$2,000</td>
</tr>
<tr>
<td>Residential Areas</td>
<td>$750-$1,000</td>
<td>$1,300-$2,000</td>
<td>$1,000-$1,500</td>
<td>$1,300-$2,000</td>
</tr>
</tbody>
</table>


For the land market price from 2000-2008, according to the investigation of Bonna Realty Group, it found that the price was rising up from 15% to 20% per year during 2000-2003, -5% to -10% during 2003-2004 (at the time of political crisis), 25% - 35% during 2005-2006 (in some potential places, the price went up from 50% to 80%) and 70% - 90% during 2007-2008 (second quarter) (Event magazine, 2008, page 38).

Table 4-7 Land market trend 2000-2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y-2000</td>
<td>Commercial 400, Residential 200</td>
</tr>
<tr>
<td>Y-2001</td>
<td>Commercial 500, Residential 300</td>
</tr>
<tr>
<td>Y-2002</td>
<td>Commercial 600, Residential 400</td>
</tr>
<tr>
<td>Y-2003</td>
<td>Commercial 650, Residential 400</td>
</tr>
<tr>
<td>Y-2004</td>
<td>Commercial 600, Residential 350</td>
</tr>
<tr>
<td>Y-2005</td>
<td>Commercial 900, Residential 500</td>
</tr>
<tr>
<td>Y-2006</td>
<td>Commercial 1,200, Residential 700</td>
</tr>
<tr>
<td>Y-2007</td>
<td>Commercial 2,500, Residential 1,600</td>
</tr>
<tr>
<td>Y-2008</td>
<td>Commercial 5,000, Residential 2,800</td>
</tr>
</tbody>
</table>
Impact of the Real Estate Bubble Growth in Cambodia


According to the report from the NBC on the figure of the business credit, it tends to increase especially the construction, real estate and banking from 2005 to 2007. Please see below table for details.

Table 4-8 Total net credit classified by type of business as at December 2007

(Millions of Khmer Riel, 1$=41.50R)

<table>
<thead>
<tr>
<th>Type of Business</th>
<th>2007</th>
<th>Share</th>
<th>2006</th>
<th>Share</th>
<th>2005</th>
<th>Share</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2007 over</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>Construction</td>
<td>640,685</td>
<td>10.2%</td>
<td>269,067</td>
<td>7.7%</td>
<td>144,957</td>
<td>5.9%</td>
<td>138.1%</td>
</tr>
<tr>
<td>Real estate and public utilities</td>
<td>495,447</td>
<td>7.9%</td>
<td>298,886</td>
<td>8.6%</td>
<td>148,004</td>
<td>6.1%</td>
<td>65.8%</td>
</tr>
<tr>
<td>Banking and finance</td>
<td>36,495</td>
<td>0.6%</td>
<td>24,004</td>
<td>0.7%</td>
<td>26,485</td>
<td>1.1%</td>
<td>52%</td>
</tr>
<tr>
<td>Others*</td>
<td>5,087,070</td>
<td>81.3%</td>
<td>2,880,173</td>
<td>83%</td>
<td>2,118,858</td>
<td>86.9%</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6,259,697</td>
<td>100.0%</td>
<td>3,472,130</td>
<td>100.0%</td>
<td>2,438,304</td>
<td>100.0%</td>
<td></td>
</tr>
</tbody>
</table>

*Others: Services, wholesale and retail, personal consumption, manufacturing, agriculture, import, export, claim on government and others.


The factors that lead to the fast growing in the real estate market

The following six factors had led to the property boom in Cambodia

- Stable economic growth
- Political stability
- Banking industry development
- Foreign direct investment
- Incentives and regulation from the royal government
- Other factors

**Stable economic growth**

In recent years, Cambodia’s growth rate was double digit with further development for a new sector. In 2005, the growth was 13.4% while in 2006 it was 10.4% and 9.5% in 2007. Because of the world economic crisis as a result of the financial turmoil, the growth rate for Cambodia is expected to decrease from 9% to 6.5% in 2008 and 4.25% in 2009 (IMF report, November 2008).

GDP per capita was increased from 583$ in 2007 to 625$ in 2008 and the poverty rate is expected to reduce by 1% every year and according to the report it is now below 30% comparing to 36% in last decade (Reaksmey Kampuchea Newspaper, 21 November 2008, page k3).

Cambodian agriculture accounts for around 30 percent of GDP, with garments, tourism and services making up most of the rest. The tourism industry in Cambodia has been growing rapidly for the last decade and has become the second main source of growth after the garment sector. In 2007, it is expected to generate USD718.3 million of direct economic activity, or about 9.3 percent of GDP, and USD 1,561.9 million of both direct and indirect economic activity. In terms of employment, the sector is expected to create approximately 1,108,000 direct and indirect jobs, representing 15.8 percent of total employment in the same year. The number of international tourists increased dramatically during 1995–2006 at an average annual rate of 20.4 percent, from 0.29 million persons in 1995 to 1.70 million in 2006 (CDRI, 2007, page 4).

The sub-sector, garment export, value added increased at annual average rate of 40 percent during 1995–2006, lifting its share of GDP from just 1.3 percent in 1995 to
9.2 percent in 2000 and 15.9 percent in 2006. The most prominent benefits brought by the sub-sector to the whole economy have been export earnings, USD 3.32 billion in 2006 and employment generation. The role and significance of the garment industry have been widely recognized. Cambodia’s garment exports increased by 20 percent in 2006, reaching USD2.5 billion and providing 334,000 jobs. The US is the dominant buyer of the product, followed by the EU and Canada (71, 23 and 4 percent respectively).

Cambodia’s exports rose by 10 percent from third quarter 2006 to USD890.8 m in third quarter 2007 (CDRI, 2007, page 2). Garments were the main cause of the increase, accounting for 95 percent of total exports and rising 8.2 percent from a year earlier to USD846.1 million (CDRI, 2008, page 15).

With new source of economic development, oil and gas energy will contribute largely to the revenue of the government budget. Exploration is at an early stage, but some estimates suggest that one of six offshore exploration areas could contain as much as 700 million barrels of oil. That could produce a revenue flow for the Government from this block alone of an estimated $750 million–$1 billion a year at full production, or roughly of the same order of magnitude as total revenues collected in 2006 (ADB, 2008, page 5).

**Political stability**

Cambodia had achieved a stable political situation since the national election that supported by the UNTAC in 1993 especially from 2000 for full stability. In 1999, Cambodia had only single central government with major political parties. Cambodia is a constitutional monarchy. The Constitution stipulates that Cambodia adopts a policy of liberal democracy and pluralism, and that the Cambodian people are masters of the
country. The Constitution also sets out that the power of the Legislative, Executive and Judicial branches shall be separated.

The country has a bicameral legislature, which consists of the National Assembly and the Senate. The latest elections for the National Assembly and Senate were held in 2003 and 2006, respectively. For the first, second and third election, there were always political dead locks after the national election and then some mechanisms were used to solve these kinds of problem (Microsoft Encarta, 2008). Ironically, for the national election in 2008, the political situation had gone well with the process and all parties agreed to form a new government without any dead lock as before. Cambodia achieved a full peace without any dissident or guerilla inside of the territory especially after the fall of the Khmer Rouge’s organization before the national election in 2003. Cambodia opens the free market economy and also practices the democracy principle.

Banking industry development

The financial system in Cambodia, which is dominated by the banking sector, is gradually becoming strong after bank restructuring finished in 2003. The remarkable things are the public’s confidence, total banking assets, bank deposits and loans to private sectors are increased sharply.

As the commercial banks are largely based in the cities, microfinance institutions are playing an important role in providing rural credit throughout countryside. The banking system in Cambodia is currently expanding rapidly in terms of scope and scale.

The domestic financial services industry is growing fast private-sector lending by Cambodia’s 20 or so banks grew 60 percent last year - but remains too small to be financing projects valued in the hundreds of millions of dollars. Instead, analysts say,
much of the funding is Cambodian cash stuffed into mattresses, locked up in gold, or squirreled away in anonymous offshore bank accounts for years (ABC News, January 2008, Para. 13-14)

The Cambodian banking industry still has a lot of latent powers, although it has made many achievements in the past few years. Cambodia's banking industry developed rapidly in 2006, as its deposits rose 45 percent and loans up by 42 percent. In addition, there are just 3 percent of deposits and 3 percent of loans circulating in the country. It is an advantage for the new coming investors to adjust the market with lower risks. (Chea, Chanto, March 2007).

**Foreign Direct Investment**

Cambodia had attracted the foreign direct investment at amount of 1,500 million USD for the first six month in 2008, which is triple comparing to the same period in previous year 2007. Korea is the leading investor, which account for 71.47%, then China 10.2%, and France 2.8% etc. Most of the projects are on agriculture, industry, production and tourism. Base on this growth tendency, Cambodia could reach an amount of 3,000 million USD as expectation (CPL properties news, 2008, page 1). Significant investments from Korea include the tourism, construction, real estate, industry, mine and other services. In the construction, there are prominent projects on skyscraper and urban city and other building such as Gold Tower42, De Castle Royal, De Sky, IFC (International Financial Complex), Camko City and other urban development around the Phnom Penh city (CPL properties news, 2008, page 4).
Impact of the Real Estate Bubble Growth in Cambodia

Table 4-9 Private investment projects approved, 2001-2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Garments</th>
<th>Services</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>0.4</td>
<td>102.2</td>
<td>26.5</td>
<td>188.4</td>
<td>224.9</td>
</tr>
<tr>
<td>2002</td>
<td>48.3</td>
<td>67.7</td>
<td>27.2</td>
<td>145.3</td>
<td>253.3</td>
</tr>
<tr>
<td>2003</td>
<td>37.0</td>
<td>157.2</td>
<td>68.1</td>
<td>168.4</td>
<td>309.3</td>
</tr>
<tr>
<td>2004</td>
<td>12.3</td>
<td>187.9</td>
<td>132.6</td>
<td>91.8</td>
<td>292.0</td>
</tr>
<tr>
<td>2005</td>
<td>26.8</td>
<td>918.6</td>
<td>174.4</td>
<td>555.5</td>
<td>1096.9</td>
</tr>
<tr>
<td>2006</td>
<td>126.5</td>
<td>40.1</td>
<td>30.5</td>
<td>60.7</td>
<td>227.3</td>
</tr>
<tr>
<td>2007</td>
<td>216.9</td>
<td>78.9</td>
<td>9.6</td>
<td>70.7</td>
<td>2337.0</td>
</tr>
<tr>
<td>Q1</td>
<td>0.0</td>
<td>171.7</td>
<td>23.2</td>
<td>2042.2</td>
<td>266.2</td>
</tr>
<tr>
<td>Q2</td>
<td>1546</td>
<td>76.6</td>
<td>26.1</td>
<td>94.5</td>
<td>971.9</td>
</tr>
<tr>
<td>Q3</td>
<td>19.1</td>
<td>142.7</td>
<td>36.6</td>
<td>740.7</td>
<td>497.5</td>
</tr>
<tr>
<td>Q4</td>
<td>2.1</td>
<td>51.2</td>
<td>243.0</td>
<td>335.7</td>
<td>191.3</td>
</tr>
<tr>
<td>Q5</td>
<td>12.0</td>
<td>108.4</td>
<td>40.7</td>
<td>138.0</td>
<td>1156.9</td>
</tr>
<tr>
<td>Q6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Cambodian Investment Board, 2008. It is including expansion project approvals.

Cambodia also established Special Economic Zones in several key locations in the country. To promote the investment climate, the government had created 19 special economic zones around the countries especially in Phnom Penh, Sihanouk Ville, Koh Kong, Sva Rieng, Banteay Meanchey, Takeo, Kandal, Kompot, and Kompong Cham. In those zones, investors will find it easy for their project implementation which equipped by standard tool for business activities especially the infrastructure and its convenience for transportation (CDC, 2008).

In view of regional development, Cambodia is also a strategic location for several reasons. Manufacture in Cambodia and 310 million consumers in the Greater Mekong Sub-region (GMS), virtually at your doorstep. Within great Mekong sub-region flagship projects, Cambodia located in southern economic corridor which is developing with the infrastructure development for the sub-regional road and ASEAN high way network and also the international Singapore-Kun Ming (China) railway link (Ministry of Commerce, 2006).
Incentives and regulation from the royal government

Because of the chronic war for more than two decades, Cambodia’s land management system was not yet effectively implemented. The government had reformed in this management and offered the land title for the owner of the property. Recently, Cambodia received a technical assistant from EU to implement the reform on land reform and administration (CPL properties news, Oct - Dec 2008, page 4).

In 2007, the government passed a sub-decree allowing foreigners to use property they own via leasehold as collateral with the banks. This led to speculation that the government was favoring an amendment to property investment law. Speculation that may have been fuelled by property speculators hoping to drive up property price based on the type that foreigners would be allowed freehold ownership in Cambodia (Ly, Sok, 2008).

Other factors

During the property market boom, there are many oversea Cambodians interested to buy the land and house for profit purpose. Some of them share with the local people as they are unable to administer the land directly. The speculators are also contributed largely to the price increase while everyone was just looking at the profit purpose only. It sounds like a moving cash flow from one area to another. In some cases, it is an internal flow of market when people sell out one place then turn around to buy another one. That is why the market transaction continues steadily. Although there is no exact numbers of these transactions, it is not efficient in economic terms. It is one of the most profitable businesses for a short period of time, which profit could double. Within this rumor, everyone started doing this business together particularly around the big investment
project areas. Therefore, it had inspired this market significantly for a limited period of time from 2007 to 2008.

**The factors that lead to the rapid decline in the real estate market**

It can be divided to external (world economic slowdown and global financial crisis) and internal factors (political situation during the national election, border tension between Thailand and Cambodia, strict regulation from the royal government and others) for the cause of the market decline in this market recently.

**External Factors: world economic slowdown and global financial crisis**

The economic crisis affected to the Cambodia economy especially tourism, FDI, garment and text tile, agriculture, real estate (construction) and other sectors. According to the report, in the first 10 months of 2008, from the ministry of tourism, Cambodia had received the numbers of tourist of 1.7 million. This is a decrease of 8% comparing to the previous year. This decline was explained that is a consequence of the internal crisis in Thailand while most of the tourists buy their tour package through Thailand. (Radio France International, November 2008).

Cambodia’s annual revenue from this industry accounts more than 1 billion USD. For the garment sector, a representative from the garment manufacturing association of Cambodia expressed concern about the future of this sector. Some of the companies in the United States, buyers, lost a lot of money because of the financial crisis in their countries (Radio France International, November 2008). The US is the major market for the garment industry in Cambodia, in which 70% of the export is to this country. Garment export declined from 18% last year to 4% in the first semester in 2008.
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(Reaksmey Kampuchea Newspaper, 2008, page k2). The revenue from this industry contributed largely around 3 billion annually with work force around 370,000 for Cambodia. FDI were estimated that will be down from the highest level of 10% of GDP in 2007. In the construction sector, it also decreased to 17% comparing to the last year semester. (Reaksmey Kampuchea Newspaper, 11 December 2008, page k2). For the agricultural sector, according to some experts, mentioned that some agricultural products ‘prices had remarkably plummeted in this November 2008. In the world market, its price had declined unexpectedly for example the number one quality rubber had decreased from more than 3,000 USD to 1,500 USD per ton, and the palm oil also declined from 1,200 USD to 400 USD per ton, the tapioca’s floor declined from 530USD to 220 USD per ton. This price decline caused million dollars in profit loss for the investors in Cambodia. This external crisis also affected the real estate sector particularly for the real estate companies where some of them went bankrupts and lost profit. Another impact is to the second hand products in which its price had decline 50% too (Radio France International, 25 November 2008).

**Internal Factors**

**Political situation during the national election**

It had become a mindset for the Cambodian people once having any big changes in the national level especially the national election. People are afraid of being falling into the war either internal violence or war during the change in the society. This might be caused by the historical experience especially when the Khmer Rough held its power in 1975 and then change Cambodia to the killing field. After having first national election
in 1993, all parties disagreed to form a new government and then exchanged fighting erupted in some area of the countries. Some parties claimed for some autonomous areas. After second national election, there was internal fighting in July 1997 which forced the first prime minister outside of the country and abandoned the power. In 2003, after the election, the opposition party disagreed with the result issued by the national election committee and then they started demonstration with the government that took quite a long time until all parties agreed in principle to form a new government. This kind of memory lead to the feeling of not confidence to the political situation and therefore, people start thinking about themselves a head of another.

**Border tension between Thailand and Cambodia**

Cambodia and Thailand has a border dispute which last almost 6 months and there is no sign of improvement as a result of the negotiation. However, both parties, with utmost constraint, agree not to use force to solve this problem.

The tension has erupted since the inscription of the Preah Vihear temple in July 2008 to the world heritage for UNESCO. In October, Cambodian and Thai troops exchanged fire on their disputed border area, killing two and wounding a dozen (ASEAN Affairs, 2008).

Prior to the clash, the ownership of the Preah Vihear Temple caused both sides to maintain military stalemate near the border for weeks. With political crisis in Thailand, further delay of the negotiation will be an obstacle to the result of discussion in which Thai will have to submit it to the national assembly in their own country.
Recently, there is no more clashes along the border but the confrontation still remain at the critical areas especially near the Preah Vihear temple. This dispute deadlock will hamper the cross-border business as well as tourism around those areas.

**Strict regulation from the royal government**

Government set new strict policy for the banking system by increasing the minimum capital around 3 times higher than the current minimum capital, commercial bank’s capital will be triple to 36.5 million USD, as a requirement to cope with the financial crisis in the world and region. Commercial banks will be allowed to maintain the current capital requirement of 50 billion riel (about 12 million USD) if they have an influential shareholder (The Phnom Penh Post, 26 September 2008, para. 1-3). Only four commercial banks were unaffected by this regulation. In addition, the country's six specialized banks, which only make loans and do not take deposits, must also increase their minimum capital to 30 billion riel (about 7.3 million U.S. dollars) unless they have a bank or financial institution influential shareholder with an investment grade rating. All existing banks have until 2010 to meet the new requirements (China Economic Net and Xin hua net, 24 September 2008).

Additionally, in order to cope with the current economic and financial situation and to ensure that all banking and financial institution take a high precaution about providing credit to real estate which is fast developing, on 26 June 2008, NBC issued a guideline to all banks in Cambodia to comply with the credit ceiling specification on real estate in order to diminish risks of loan portfolio. All banking and financial institutions can provide credit on real estate at an amount of no more than 15% of the total loan portfolio (NBC, 26 June 2008).
A part from this, real estate agents and developers will have to obtain a license from the ministry of economy and finance to sell projects and face legal action and even closure if they fail to do so. The new rules mean developers and agents must comply by the end of September 2008. There will be cost to the developers and agents involved but officials believe this will deter cowboys. Real estate developers will be required to deposit 2% of the project’s total value at NBC (Event magazine, 2008, page 54).

All these new regulations are required for all real estate and developers, banks to comply with. Previously, all those institutions were able to implement their projects without any restriction. Within government’s intervention, some projects were on hold and cancelled which is at the time of economic slowdown too.

There is another factor that led to the decline in the property market too. High speculation on market value from those who intend to sell their properties at a very high price. There is no standard price for the property. In this case, it will affect to the investors’ decision to buy the land or build new projects. When they want to buy properties where the price is not based on the market value but rather then negotiation that was set by the seller at a higher price; it makes harder for the buyers.

What is the primary impact to the low and middle class people in Cambodia and how can this country implement strategic action to improve its local market?

According to the preliminary data from the bureau of census of 2008, 19.5% of Cambodia’s population lives in urban areas, with 1,325,700 or near 50% of them concentrate in Phnom Penh. The majority of national development projects are also focused in the city especially in Phnom Penh, Siem Reap and Sihanouk Ville. The urban
poor communities constitute around 30% of the current population in Phnom Penh (National Institute of Statistic, November 2007).

In fact, there are significant threat to the city development particularly within the Cambodian context is the concentration of development in Phnom Penh. This has been characterized by inequality of urban development, forced evictions, improper resettlement planning, and insecurity of land tenure for urban poor communities. This has been the case both in central districts of the city as well as in the sub urban areas. The drive toward real estate development has been purchased at the expense of the environmental and social considerations (UN-HABITAT, November 2008).

According to a survey from CDRI in 2008, the major reasons for land sales include renovating houses, basic family consumption and expenses, investing in higher productive businesses and assets, and non-productive farming. Land sales can have both positive and negative effects on local people depending on how the money earned from selling land is used. If the money is used productively, i.e. buying productive assets or being used as capital to fuel other businesses or invested in children’s education, then selling land can help improve a family’s well-being (CDRI, 2007, page 6). Otherwise, selling land, especially farm land, can be detrimental as the family could lose a livelihood source, especially in the absence of alternative employment. From the point of view of local people, land sales are very welcome and reportedly have had positive impacts on local people and communities. In dynamic land markets such as Ta Check village, for example, people reported an improvement in the quality of housing and increased numbers of motor bike (CDRI, 2007, page 6). Some of the land sellers buy larger areas of land in other areas away from the villages for agriculture production and
become wealthier. The poor, however, tend to use all the money earned from land sales for family consumption, such as housing improvement, purchasing non-productive assets, or paying for the marriage of children. They end up leaving agricultural work and become dependent on high-risk day labor and casual jobs.

**Economics Impact**

- Speculator will lead to the inefficiency of the economy and then it will distort the economic development. Once the price decline, every sector will be affected. For the people, it could be much in debt with the bank or money lender as they need to pay the interest and the premium every month. Some banks/moneylender had already captured some of the land/houses as mortgage from customers as they are unable to return of the payment. This will create inefficiency in term of business transaction where as business will be in danger in case of too much default loan on the real estate sector and then the bank will not have enough cash for customers while it depends mostly on the fixed asset.

- Low class people which earn less than $500 per month will be pessimistic about their expectation to buy land or house at the moderate price in the city or urban area while the price increase too much. Although those people pay by installment to the bank with long-term lending period, when the house in Phnom Penh for residential area costs around $100,000 (CPL Properties Business Guide Magazine, 2008).

- People will lose their confidence/trustworthy in this real estate business and then their spending will be strictly made and then it will affect to other sector of
business if this tendency continue. In fact, some people already sold their real estate property at a high price and then deposit that money in the bank or to other moneylenders without any investment. In economic term, business transaction does not work if it is not channeled to the market.

- Most of the property seller, once selling, they will buy some consuming products in which constant expense will be made especially in purchasing the transportation mean (car, van, motorbike etc.). This is an extra expense for the family.

- On the one side, the falling price of the real estate will encourage the investor to buy the property at affordable price and then it will increase the price again. Too much higher price will force the buyers to move from one area or country to another place. This will create a potential development for some other areas.

- In most transaction cases, Cambodia prefer for a payment in cash for buying house or land. There is little crisis as a result of the mortgage or in debt with the bank or moneylender. This might be an advantage for the local market in which the owner will not have to force sell of their property and it will maintain the property price as well.

Social Impact

- In some area, the government and/or the real estate developer force the people to resettle their houses while they need those areas for development. Several strikes and demonstrations had already made by those in order to ask for suitable compensation of their resettlements.
- Because of the improper land title management and the inadequate legal system in the country, it causes many land/dispute in many cases in Cambodia. Buyer and seller will have to pay the fee for the lawyer and the court in order to win their in their complaints.

- Those who were able to sell the land/house will be satisfied what they had but it happen with only a few group of people. There is a social gap between those who has and has not the property. It will lead to the social gap in which the rich gets richer and the poor gets poorer.

- Real estate development causes to the flooding in some urban area, bad road system and condition, unclean water etc. This is a result of improper management system in the infrastructure by the government authority in those areas.

- Another negative impact is the falling down of the price that affect to the income of some groups. During the economic slow down in the country as well, people will be trying to minimize expense for the family especially the children. It will lead to the social problem for example forcing the student to quit their schools or force some of them to seek employment rather than studying at school.

For the strategic actions, Cambodia should take for improvement, will be answered in the recommendation part of the chapter V.
CHAPTER V
Summary, Conclusion, and Recommendations

This chapter summarizes the findings of this directed research project. The researcher reiterates the results that were found that answered the following research question and sub questions:

The main question is:

What is the primary impact to the low and middle class people in Cambodia and how can this country implement strategic action to improve its local market?

Sub questions:

4. What is the real estate market especially its current situation?
5. What are the factors that lead to the fast growing in the real estate market?
6. What are the factors that lead to the rapid declining in the real estate market?

This chapter will conclude with recommendations from the researcher.

The real estate market especially its current situation

This market situation is still critical for the local people. However, it was affected by many factors from both international and national market. Generally, demand and supply will play very important role in determining the growth of this emerging market. Some projects are still going on while a few of them postponed. Apparently, Cambodian people still need a lot of residents for themselves and they are looking forward to buy by paying installation to the bank. Because of the government’s regulation in setting the real estate’s loan, people were unable to invest in this project any longer. From 2005 to July 2008, the
real estate market were developed remarkably especially the land price in the urban and
the business area. At this moment, this market seems to be quiet and no one is able to
forecast when it will be bounced back.

**The factors that lead to the fast growing in the real estate market**

There are six factor contributed to this growth that include stable economic
growth, political stability, banking industry development, foreign direct investment,
incentives and regulation from the royal government, and other factors. FDI is the leading
sources among the all those things. Political and economic stability, double digit
economic growth in 2005 and 2006, and bank’s growth by 60 percent in 2007, ensured by
the government for this last decade are also keys in maintaining the investor both locally
and internationally. The development in garment industry, tourism, and manufacturing in
several locations in Cambodia had drawn attention for many potential investors. By
seeing this tendency, government had introduced incentive in order to promote and
enhance the real estate. Government’s land reform and administration as well as sub
decree approval that allow foreigners to use property they own via leasehold as collateral
with the banks and with the open economic policy and several good initiatives,
Cambodia’s real estate market started booming from 2005 up to mid of 2008.

**The factors that lead to the rapid decline in the real estate market**

There are external and internal factors where as external include the cause of the world
economic slowdown and global financial crisis and internal factor in the country such as
political situation during the national election, border tension between Thailand and
Cambodia, strict regulation from the royal government and others.
External impact were largely to the garment export to the United States and EU, construction, declining numbers of tourism, and decreasing numbers of FDI in Cambodia especially after August 2008. Cambodia had received the numbers of tourist of 1.7 million. This is an increase of 8% comparing to the previous year which is lower than 2007. Garment export declined from 18% last year to 4% in the first semester in 2008. FDI were estimated that will be down from the highest level of 10% of GDP in 2007. In the construction sector, it also decreased to 17% comparing to the last year semester. For agricultural products, the prices have tumbled from 20-50%, which depends on the type of products.

Cambodia national election in July 2008, and the border tension that lead to the exchanged gun fire in the border area and the strict regulations especially on the banking system such as tripling the minimum capital of the commercial bank to 36.5 million USD, and guideline for the financial institutions in providing credit on real estate at an amount of no more than 15% of the total loan port folio as well as a deposit 2% of the project’s total value at the NBC had a negative effect to the real estate in Cambodia.

Regarding the impact to the middle and low class people, especially low class people were directly affected. Economically, some buyers were in debt and unable to pay back to the bank or lenders because of the limited income and high interest rate. This was frequently happening for the speculators. Middle class people were optimistic about their dream of buying a house for their families while the price was too high and not proportional to their monthly revenue. Some low class people, once selling their properties, will buy the consuming products which is not efficient for family income and
expense. There might be positive impact as they could sell and make income for the family or re-invest in other business. Socially, some people were forced to move their house and in some case they decide to make protest by demonstration or strike to the government. Unsolved land/property disputes were also happening in many cases and areas of the country. A fast development without proper management also caused the poor infrastructure in several area of the urban area.

Economic and social impact as a result of the real estate market boom and decline created many challenges for the society especially it will have a short and medium term affect for the country and the government will also have to take some actions in order to cope up with those issues.

Summary

In summary, the literature and document reviews have showed that the property market had been declining a few years ago but in Cambodia, it was hard hit in mid of 2008. Stable economic growth, political stability, banking industry development, foreign direct investment, incentives and regulation from the royal government are the key factors leading to the property market boom but world economic slowdown and global financial crisis and political situation during the national election, border tension between Thailand and Cambodia, strict regulation from the royal government had undermined the development and then led to the downward decline. Negative impacts are force movement of the house’s owner in some places, increasing numbers of unsolved land/property disputes, poor infrastructure, more fixed asset which is not easy to liquid,
less business initiation or start up, people tend to save money rather than spending on something that are not necessary, low access to the education and more unemployment.

By seeing those situations, the government had taken several actions in order to effectively response to the possible negative impact to the economy especially an introduction a strong financial system and protectionism for the customers on real estate sector.

Conclusion

The real estate sector had grown from 2005 to July 2008 and it is declining, according to the report from several sources. The real estate in the world also showed its downward tendency before Cambodian market and it contributed to the financial crisis especially in the United States and then wide spread to other sector of the economy until reaching the world economic crisis. Cambodian real estate also affect to the national economy whereas this market were fast growing and also declining in a short period of time. This study found out the reasons why this market was bubble in this year and no one could expect that it would bounce back soon.

Middle and low class people were affected by this kind of bubble market especially for those who are speculator and take risk for investment without any other supporting business as income and in this case it will hamper to the local financial system whereas most of the cash were invested in the fixed asset which is not easy for liquidity. Social problem also arose while personal or family could not answer to the daily living expense especially the accessibility to the higher education and the employment in the country.
**Recommendations**

In this section, according to some experts and analyst the following suggestions should be taken into account in order to effectively develop a sustainable real estate market and monitor the impact to the society: enhance the higher level of customer’s confidence for this market by maintaining a sound banking system and protect customers from any fraudulent projects by some companies, maintain a suitable level of property’s price by introducing a real estate law as well as real estate association or national valuer association which could manage this market in free market economy, the government should be able to promote the investment by trying to keep the property price at a reasonable level (the rule of thumb that the cost of land should be between 10% and 15 % of the total gross development value of a new project) (The Phnom Penh Post, November 19, 2008, page 1). Finally, the study suggested all the investment in the real estate should be encouraged not just in the metropolitan or urban area but also in all around the countries. Therefore, it sounds like creating a system of development which will not be hard hit by the external environment.

Further studies need to be conducted in order to improve and develop an effective measure to the real estate market administration. How to develop a long term investment project in the property market will also be advantageous for the national economy. These two next studies are really important in order to response to the future sustainable real estate market.
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APPENDICES

Appendix A: Abbreviations

ABC American Broadcasting Company
ADB Asian Development Bank
ASEAN Association of Southeast Asian Nations
CDC The Council for the Development of Cambodia
CDRI Cambodia Development Resource Institute
CPL Cambodia Property Limited
EU European Union
FDI Foreign Direct Investment
GDP Gross Domestic Product
IMF International Monetary Fund
NBC National Bank of Cambodia
UN United Nations
UNESCO United Nations Educational, Scientific and Cultural Organization
UNTAC United Nations Transitional Authority in Cambodia
USD United States Dollar
VOA Voice of America
WB The World Bank
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