

# VTRUST Quarterly

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## Rental Accommodations

*Demand on cheap rents outnumber supply*



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**Feature:**

**Mr. Chrek Soknim**

Deputy director at Vtrust Property Co. Ltd, talks over three different approaches to investing in serviced properties.



**(Page 4-5)**



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## Demand on cheap rents outnumbers supply



By Sam Sopanharith

conomic growth of the Kingdom, but this trend does not end the low-class accommodations where most of migrants can rent for their stays.

“Cheap rental accommodations play a crucial role in providing appropriate settlements to those hundreds of thousand people who spend less than US\$100 per month for their temporary stays in Phnom Penh,” said Chrek Soknim, deputy director at Vtrust Property Co., Ltd.

The urban population is increasing restlessly, partly contributed by migrants from rural parts of Cambodia coming for study and work, and this is not to mention foreign expats and visitors. The number of the Capital’s population is around 1.6 million, though other sources suggest 2.2 million recently.

The latest data indicates the number of factory workers was around 500,000, most of whom come from the provinces to work in Phnom Penh and Kandal province. **(Continue on page ...)**

**T**he boom in high-rise buildings in Phnom Penh indicates a robust eco-

## Satellite cities a solution to overcrowded city



By Sam Sopanharith & Hoem Seiha

**T**he coming sprawls of Phnom Penh’s satellite cities will bring about not only opportunities but also challenges for the population.

“Any urban has to sprawl outside the main city areas so that it can keep up with the increasing demand of commercial land,” said Chrek Soknim, deputy director at Vtrust Property Co., Ltd.

He continued, the prices of land in

central, bustling locations of Phnom Penh are increasing from year to year, and some of the residents have sold their land and moved to suburban areas where housing prices are much lower. They could use their savings from the selling for their businesses or other purposes.

It can be said the expansion of the urban is an organic process, and this results in an ease **(Continue on page ...)**



## High-grade offices on the rise as foreign companies coming

By Sam Sopanharith

Supply and demand of high-grade office space start to see a sign of a slight growth as boosted by the Kingdom's robust economic growth and the foreign incoming investments that create a rising demand on high grade offices.

Chrek Soknim, Vtrust Property's deputy director, said, "Foreign companies are coming to Cambodia because they see the economic and political stability and especially some advantages over our nearby countries."

The emergence of Vattanac Building, which consists mainly of high grade office space, sheds a new light on the Kingdom's office space market.

Soknim of Vtrust said office space in Phnom Penh is low-grade compared to the international standard, because it fits most of local companies. "The rising number of foreign companies who look for high grade office should be a shifting trend towards office realty," said Soknim.

According to the local media, prime-

rent index across Phnom Penh indicates an annual growth of 3%.

Grade B office space has enjoyed its growth of 10% annually, but the grade C one has been indicated with a slight decline as tenants' economy is better and they look to improve their image■

*Additional reporting by Hoem Seiha*

## Land prices up in the first quarter

As agriculture sector has become one of the main economic sources, the price of land purposefully for agriculture is rising steadily, especially in the Northeast of the country.

The Northeastern areas are often re-

garded as having no commercial potential, but the recent agricultural land concession by the government has led to a gradual increase of land demand and prices.

Local media reported agricultural land

in Kratie and Steung Treng provinces is priced at US\$5,000 to US\$7,000 per hectare, while that in Rattanakiri and Mondulakiri is from US\$5,000 to US\$10,000 per hectare■

*Reporting by Sam Sopanharith*



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# Running serviced property business

## Manage on your own, lease or let it be managed?



Mr. Chrek Soknim, deputy director, Vtrust Property Co. Ltd, in his office

Photo: Hoem Seiha

*Doing a business on serviced properties is lucrative in the Kingdom's current market. Nevertheless, before jumping up into this business, you might need more than monetary capital – and that's property enterprise leaders always refer to sound information about the market, real estate related skills, keen interest in this business matter, and time dedicated for the business. Once you have most of the things above, it means you're well-prepared for the start. But this isn't practically easy for every property owner to succeed because an owner might suit well with a certain approach but might not with another.*

**Editor-in-chief Hoem Seiha** of Vtrust Quarterly found the story interesting and met **Chrek Soknim**, Vtrust Property's deputy director, to find out about the different approaches that property owners can apply with their office or apartment properties. Here voices of Chrek Soknim go.

### 1). Manage on your own

Of course, having a 10-20 storey building is your big asset to start an investment in serviced property. However,

there're some pros and cons when it comes to managing it on your own properties.

First, the benefits you as a property own-

er gain from managing your own property are the gross incomes. You have an opportunity to enjoy your sole-proprietorship cross incomes, especially when you reach a peak of occupancy rate.

However, it isn't a way to be a smart property investor. Because you'll have to devote most of your time and energy to the management of your property, you'll be tied up with it and won't have much time for future business ideas and policies to expand your investments. When it comes to managing your own property, things that might adversely affect your productivity are a loss of focus, high operation costs, limited operation capacity and quality, and risks involving unstable



cash flow to settle the operation costs on time.

Of course, you might doubt how these might occur when you manage your own property. First, let's study how you might lose your focus. If you dream of a big achievement in property investment or development, setting aside some time for running your own serviced properties – offices or apartments – will scatter your business activities, leading to a high cost of operations and inability to shape your business fields of expertise.

Second, like any business, the scatter of operational activities is closely associated with high operational costs. Scatter of operational activities occur when operational fields move apart in many different directions, where cash flow is needed to supply excessively. The margin of the income, of course, becomes small.

Third, a loss of focus also affects the capacity and quality of services. Since you have your own management on all kinds of operations like sales & marketing, finance, human resources, building and facility maintenance, and strategies, you'll have to allocate human resources to govern each of the sectors. And that might affect your capacity and quality of productivity and services you're providing to the tenants.

Last, managing your own property is highly risky because of the fact that cash flow is not there in time to respond to your current needs – like employee payments, utilities, maintenances, taxes, etc. For instance, with poor management or under some circumstances, late payments or low incomes from the tenants because of many reasons can make your accountability low, hence resulting in weak health of the company – and sometimes leading to bankruptcy. Another success factor of your high occupancy is the effective sales and marketing to find tenants to fill your serviced properties, but I'll bet it's isn't easy to achieve by less experienced and untrained work teams. Unless you have a huge capital for one or two year(s) of operations with meager incomes, you shouldn't do it.

## 2). Lease to property managers

Lease is when you rent your apartment or office buildings to a property management company for a period of time. For most of property owners who want freedom, they lease their buildings to property management companies with a fixed amount of rental prices. Leasing frees the owners of properties from involvement in the business, while they enjoy monthly or yearly rental pays based on negotiations. However, leasing can be disadvantageous to both owners and leasing contractors.

First, the future of rental prices is unpredictable. The unpredictable future of rental prices could affect both of the parties – the property owners and contractors. If the future rental price goes down below the fixed rate of the past renting, it affects the property managers. However, if the price goes up higher than the fixed rate of the past renting, it affects property owners because the set prices indicated in the contracts can't be adjustable.

Second, since property managers are seeking win-win strategies to incorporate property owners as strategic partners, they're more likely to manage properties for others than lease the whole buildings because the latter places them at more financially secured zone in term of serviced property operations.

### 3). Let it be managed

I couldn't suggest any most brilliant way to success in property investments, but there's always a strategic way when you invest in serviced properties. That said, let your properties be managed by a reliable property management company. However, I'm sure the first question that might come up to your mind is how this works and benefits you as property owners.

By letting your properties be managed, you agree with the property managers to do all the management of your properties on behalf of you, while you're not involved in the operations of the business at all. The property managers earn a small percentage from the rentals of your properties based on the number of sales they could make. Property managers are responsible for all the operations

of the business, and the activities involved are sales and marketing to fill your serviced properties with tenants, property maintenance, staffing, just to name a few.

Property owners can enjoy a number of benefits by letting their properties be managed. First, thanks to the brand name, market maturity and experiences of the serviced property managers, they can fill the properties with higher quality tenants who would pay higher and on time for the rents and with fewer costly and time consuming legal problems. The tenants could stay longer thanks to proper services – because property managers have every resource they need to better their services. Second, thanks to skills and wider network of the property managers, the vacancy cycles are often shorter, and the occupancy rates could be considerably higher. Because well-resourced and experienced property managers have every information and data about the tenure laws, it will make you more enjoyable without hearing any problems pertaining to the rents. That ensures you a high return of investments consuming less or no time all at with your incorporated properties.

Whatever ways you choose, there're always pros and cons. However, in the context of the Kingdom's current market and business environment where stiff competition is there, to profit from serviced properties is getting harder and harder if you've got small capital, low skills and experiences, and no entrepreneurship talents to make your investments in the sector profitable.

Our strength is that we have a demanding market of properties and other real estate related subsectors. On the other hand, we've got a weakness hindering us from achieving a high or stable growth of serviced property business in the current market of Cambodia because the scale of business is too small. To make it strong, of course, we have to incorporate by handing over your management of your properties to any property managers you trust■

Worded by Hoem Seiha

Contributed by Chrek Soknim

## Demand on...

Soknim said, the number of people coming for work and business in Phnom Penh increases every year, and the demand on rental accommodations such rooms and flats thence also increases.

"But the current supply of cheap rental rooms does not reach the demand," said Soknim, adding even though there is no clear data, the recent figure of the rental accommodations obtained from district reports was around 4,000 units, most of which are rooms that suits 1 to 5 persons. Vacancy is often short, less than a week, indicating a high demand of low-price rooms and flats.

"A tenant has just left his rental room today, and you'll see a new tenant come to replace him immediately," said Soknim.

An accommodation of US\$35-US\$100 per month is often shared by a group of tenants who come for their studies and factory work in Phnom Penh.

Phay Veasna, who comes from Prey Veng province to pursue his university study at University of Cambodia, shares

the legend like many other migrants. He rents a 50 sqm room roofed by zinc materials. The rental price is US\$80 per month.

Students are on a limited budget while studying, and sharing a small amount could mean already much. He shares US\$20 each for the total rent fee among his four roommates.

"Sometimes, the place is kind of pollution by sound and disturbances, but we have no choice," said Veasna.

Ly Burat, who is from Kompong Cham province and works at M&V International Manufacturing Ltd., is also renting a small room near her workplace.

"Renting a cheap room, I can save a lot, and through this I can support my aged parents and younger sisters and brothers who are still at school," said Burat.

The low-class rental accommodations should be improved by investing in this subsector. "Investors should study and invest on this business to provide reasonable, secured rental services for low and

middle class tenants," said Soknim.

Blocks of low class rental accommodations are usually located nearby industrial sites, factories and universities and in the outskirts of Phnom Penh such as Sen Sok, Russey Keo and Mean Chey districts, to name a few.

The decent standards of living of factory workers and labors are yet far to reach. The low-class rental accommodations still have to be around some time in the future.

Initiating provisions of cheap accommodations, Thailand has practiced an idea of establishing public buildings (like small, cheap condos) to rent to migrant labors and low-class residents. This has helped ease housing shortages in Bangkok.

The initiatives of servicing proper public or private accommodations in less industrial locations to migrant labors and low to middle class population could be a solution to shortages of housing and ease of traffic■

*Additional reporting by Hoem Seiha*

## Satellite cities...

of heavy traffic to the main city because of the relocation of some of the population into the sprawled areas. This makes traffic in the central areas less severe.

Soknim said once a satellite city is built, it will also establish infrastructures and important facilities that ease the lives of the people there. "People will move from the central areas into that place and open up businesses that complement one another there," he said.

Some of the middle and low class population could move to the sprawled areas because they think the places are good to live while also spend less.

They could have more opportunities to generate good incomes compared to the central locations of the urban, said Soknim.

The expansion of the central city to the outskirts of Phnom Penh can also be a good solution to the rising population. The latest data obtained from Phnom Penh Capital Hall, the current population is about 1.6 million, growing from 1.4 million in 2008, while other sources indicate more than 2.2 million in 2012.

Soknim said, the central areas of Phnom Penh won't accommodate all the inhabitants. "Relocating to the satellite cities is the way out to ease the state of over-crowded population," he said.

However, the establishment of satellite cities could spend tens of years moving inhabitants in.

Some satellite city projects such as Diamond Island and Camko City have come into a sort of shapes, and they could be said to be very successful. They have not been fully occupied by the residents, but they are attracting people to move in.

However, it is said, difficult access to amenities and facilities is the biggest drawbacks for the residents to make a decision to relocate. People like to have amenities and facilities in place because travelling in a long distance to have those services is an annoying matter for them.

But Soknim said, "The trend of the population's preferences towards relocating to the satellite cities is looming in the horizon."

Soknim of Vtrust maintains that it could spend 7 to 10 years for a satellite city to be fully occupied by the inhabitants.

"As we see, Toul Sangker block of houses is one of the experiences," said Soknim. "Immediately after its completion in 2000, not many people lived there, but now it's a decade and the block is full of the residents."

Some other projects like Boeung Kak Lake and Chruy Changva City that are expected to be complete sometime in the future should experience the same leg-end.

Satellite cities are growing quickly. The government approved US\$2.1 billion of construction projects in 2012, while it was US\$1.2 billion in 2011, data from the Ministry of Land Management shows■

*Additional reporting by Hoem Seiha*

# VTRUST Quarterly



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## Prices of agro land up in the northeast

As agriculture sector has become one of the main economic sources, the price of land purposefully for agriculture is rising steadily, especially in the Northeast of the country.

The Northeastern areas are often regarded as having no commercial potential, but the recent agricultural land concession by the government has led to a gradual increase of land demand and

prices.

Local media reported agricultural land in Kratie and Steung Treng provinces is priced at US\$5,000 to US\$7,000 per hectare, while that in Rattanakiri and Mondulkiri is from US\$5,000 to US\$10,000 per hectare

Reporting by Sam Sopanharith

## Parkway Square expands its space for offices, parking

By Hoem Seiha

Parkway Square, once known as a shopping center, is renovating its unused space for office purposes to supply the increasing demand.

Some of the space on second floor where there is nearly a half of unused space in the Parkway building and previously used for entertainment and sports is renovated to suit office purposes.

"There's a high demand of grade "B" offices, and we don't have enough space to accommodate new tenants," said Chrek Soknim, deputy director at Vtrust Property Co. Ltd.

Parkway is also under renovation on

first floor to suit parking purposes. The current economic well-being of the population has pushed the number of automobile uses in Phnom Penh, thus needing considerably larger space for parking, especially Parkway Square, where there are shopping center, gymnastics, serviced offices, restaurants, and so forth.

Parking is one of the main matters to consider in the current context of serviced offices in Phnom Penh, explained Soknim.

Some of tenants on first floor have moved to first and other floors, allowing the first floor to be renovated

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## Expression of Interest

**VTRUST Property Co. Ltd.** is a property management company specializing in managing serviced properties for more than 6 years in Cambodia. VTRUST has taken over and managed Parkway Square, VTRUST Office Building in Mithapheap, and 4 apartment buildings throughout Phnom Penh. To expand our operations, VTRUST expresses an interest in partnering with property owners who are looking for an experienced property management partner to run their properties on their behalf. Make your inquiries to our team at 012-569-832 or [vpt@vtrustproperty.com](mailto:vpt@vtrustproperty.com) for further information.

# Property Market Reviews - Second Quarter of 2013



## Economic Overview

**The economy of Cambodia is expected to grow by 6.7% in 2013 and 7% in 2014. The forecast is based on the expected increases in agriculture, foreign direct investments in garment sector and a growing tourism industry. Regarding property sector, the government approved \$2.1 billion of construction projects in 2012, while it was only \$1.2 billion in 2011. Current demand of satellite cities is low. One of satellite cities, Camko City has completed its first phase and been on sales, and people start to move in. Experts are optimistic towards real estate market by the coming years, though they agree the dormancy prior to and in time of national election.**

## Cheap Rental Accommodations

The increasing number of migrants, especially students, workers, and businesspersons into the Capital has pushed the demand of cheap rents whose prices are below US\$100 per month, but the current supply does not meet the needs. According to primary data from each of

Phnom Penh's districts, there are around 4000 rental units of rooms and flats, though the exact number of the units could be more than that to accommodate the majority of Phnom Penh's factory and garment workers, the number of whom was around 500,000 in recent years, and this does not include students and profes-

sional workers who are more likely to settle down in cheap rents than own houses.

Rental rooms and flats supplied are often low standard, as most rents are less secured and polluted by air and sound. Such rental accommodations are usually located nearby industrial sites and in outskirts of the city. Experts are optimistic towards the future improvement of the cheap rental accommodations by initiating investments in this subsector.

## Housing

Phnom Penh has seen its change of skylines shared by a number of high-rise buildings. Having increased incomes, the urban population seeks decent housing, thus driving a wave of housing development to supply that demand. There were 194,531 all kinds of houses in 2010 in Phnom Penh, according to the online Cambodia's Commune Database. There are 29,060 apartments that accommodate multi-families.

There is no data indicating the number of sales of housing units in Phnom Penh, but housing need is increasing remarkably in recent years thanks to the increase of in-migrated population into Phnom Penh. The latest growth rate of the in-migrated population is 24% per year. The under-estimation of an annual in-migration growth rate of 14% has led to an under-supply of electricity in Phnom Penh. Though the occupancy rate of high class housing of some satellite cities in Phnom Penh remains slightly vacant and could take years to be occupied, a recent survey suggests that Cambodia as a whole needs 100,000 to 200,000 housing units each year to meet the demand of the rising population. The recent sales num-



ber of houses eased by bank loans has reached 5,000, most of which are provided by Aceda Bank.

**Urban Slums**

Urban slum is common in developing countries like Cambodia. Phnom Penh is home to roughly 2.2 million people, though official data shows 1.6 million in recent years. The total number of houses in Phnom Penh was 194,531 in 2010, according to Cambodia’s Commune Database Online. However, beside the population who lives in decent houses, Cambodia had 78.9% of slum households, UN-HABITA’s 2008 report recorded. Slums are both controlled and uncontrolled housing units often located along rivers and railroad sides, in public land, and on rooftops of old buildings, where ground and immediate floors are used for commercial purposes. The trend of relocation from these low-standard houses to proper housing in borej, satellite cities and outskirts does not have any remarkable shift in recent years. Currently, there are no urban plans related to provision of decent public or private housings to low-income underserved urban people.

**Serviced Apartments**

There is no sign of new entrances of serviced apartment buildings by the second quarter of 2013, when the number of supplies on the market is 150 of serviced apartment buildings consisting of around 3,000 units, and by 2014 the total supply is predicted to increase by 192 buildings consisting of well over 4,000 units. The number of new buildings to be in services by the next coming year is quite high.

There is no change of the prices of rentals of serviced apartments during the second quarter of 2013, even though the national election is coming soon in July, as sales of properties remain stable before

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the election. Experts believe that people tend to buy properties after the election. Overall, there is still a strong demand on serviced apartments thanks to an increase of foreign expats and long-term visitors coming to Phnom Penh, as the annual growth rate of serviced apartments is around 15%.

**Serviced Offices**

The demand on serviced office space has increased largely thanks to the expansion of local companies and the new incoming foreign manufacturing enterprises that need 50-100 square meters of office space. The annual rental growth rate increases by 15%-20%, while the occupancy rate is well over 90%, usually grade “C” and “B”. While grade “C” serviced office demand started to decline remarkably, the demand on grade “A” serviced office is still low. Real estate insiders believe grade “A” serviced office still needs some years to be filled with tenants, especially by the time of ASEAN economic integration when influx of foreign companies set up offices in the country. However, there is a slow release of new office buildings to meet the increasing demand, especially on grade “B” serviced offices. Currently, there is a



The only company to be recognized by Securities and Exchange Commission of Cambodia (SECC) to evaluate companies for IPO purposes.

Contact: First floor # 113 (Parkway Square), Mao Tse Tong, Phnom Penh.  
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total supply of 190,000 sq.m of serviced office space.

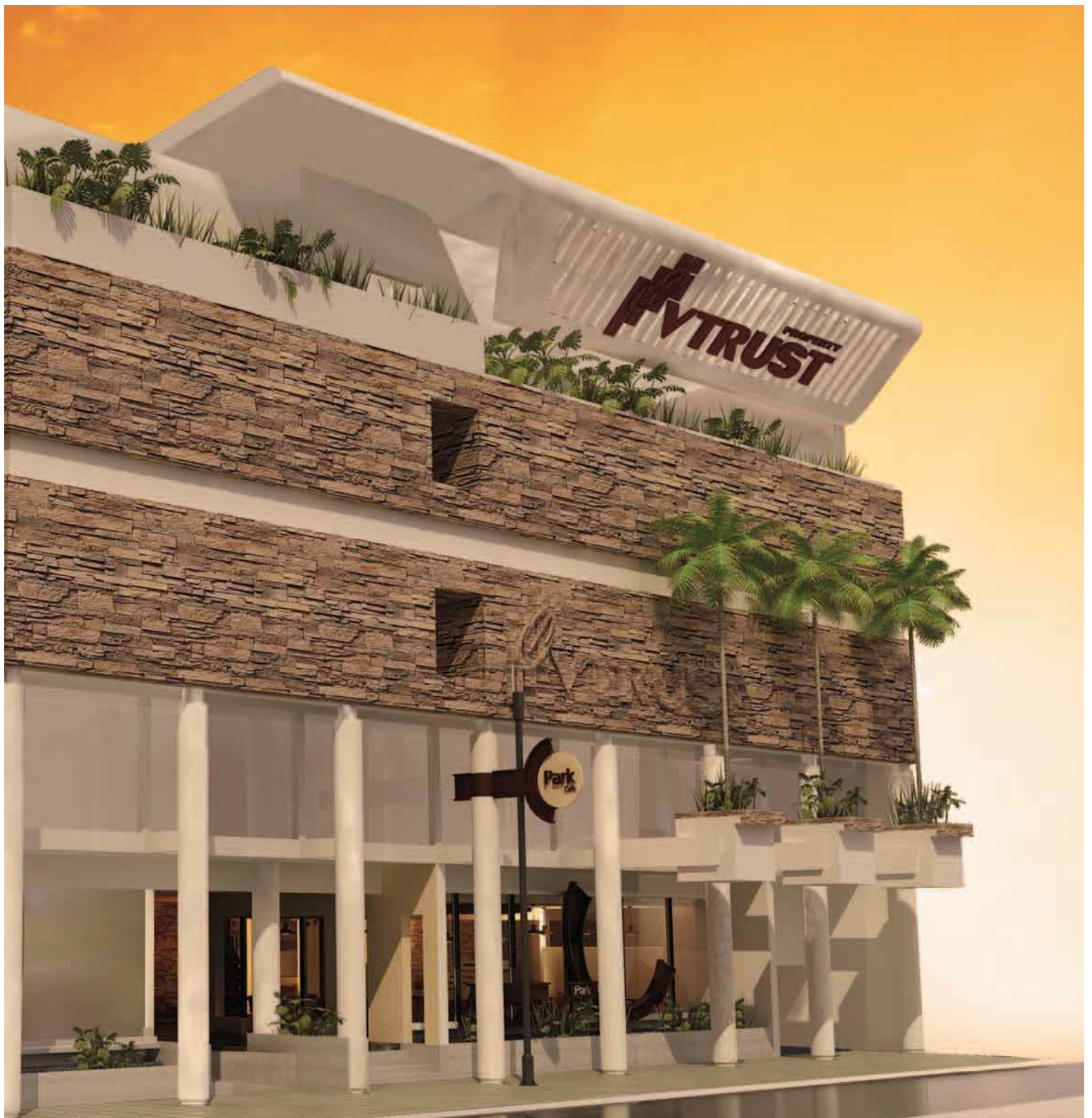
**Foreign Property Ownership Laws**

The Council of Ministers passed a legal permit allowing foreigners to purchase up to 70% of a building, with the exception of ground floor or within a certain distance from an international border.

Long-term leases lasting between 15 to 50 years are alternative way for foreigners to invest in Cambodian property. Prior to December 2011, long-term leases could, however, be granted for up to a maximum of 99 years in accordance with the Land Law 2001.

Foreigners were formerly disallowed by laws to own land in Cambodia, although the 1994 investment laws permit investors to use and develop the land in term of long-term lease agreements. Generally, private land can only be owned by Cambodian nationals or legal entities. A legal entity has Cambodian nationality at least 51 percent of its shares held by Cambodian citizens ■

By Hoem Seiha & Sam Sopanharith  
Contributed by Chrek Soknim



## **VTRUST Office Center (MTP)**

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