

CBRE Viewpoint

Funan Techo Canal: Implications for Cambodia's Real Estate

Funan Techo Canal poised to revolutionize the logistics sector in Cambodia. This monumental project is expected to have far-reaching effects on the nation's economy and, inevitably, real estate market.

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About Funan Techo Canal

Broke ground on 5th August 2024, the Funan Techo Canal represents not merely a colossal infrastructure project, but a landmark accomplishment for Cambodia. It signifies a pivotal shift in the logistics pathway and promises to boost the national economy.

Route of Funan Techo Canal



Source: Cambodia National Mekong Committee

Funan Techo Canal is a historic canal project for Cambodia, connecting from the Phnom Penh Autonomous Port on the Mekong River to Cambodia’s deep-sea port, the Sihanoukville Autonomous Port, located in the Gulf of Thailand.

This infrastructure project will extend across four provinces, namely Kandal, Takeo, Kampot, and Kep. The canal’s design includes the construction of 3 dams with sluices and 11 bridges. With a width of 100m and a depth of 5.4m, the canal will be capable of accommodating vessels up to 3,000 DWT.

The canal will be developed under a BOT (build-operate-transfer) contract. The initial 21km section will be owned by the *Phnom Penh Autonomous Port (PPAP)*, *Sihanoukville Autonomous Port (PAS)*, and the local firm *Oversea Cambodian Investment Corporation (OCIC)*. The subsequent 159km section will be a joint investment by the two autonomous ports and the *China Road and Bridge Corporation (CRBC)*.

Upon completion, the project aims to significantly shift the waterway logistics, reducing the current heavy reliance on Vietnam’s transportation route.

FACTSHEET

Length of the Canal

180 km

Beneficiary Population

1.6 million

Estimated Completion Year

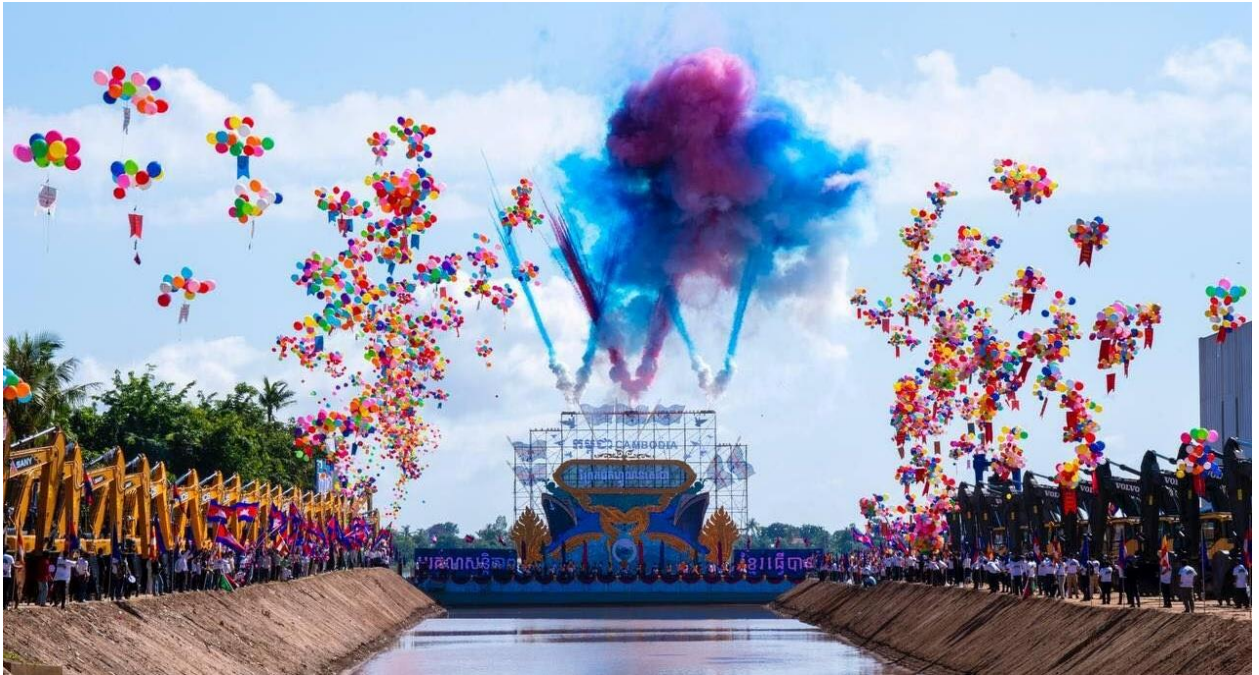
2028

Estimated Cost

US\$ 1.7b

Vessel Capacity

3,000
DWT



Groundbreaking ceremony of Funan Techo Canal at its Intersection with Mekong River on August 05, 2024 / Source: Ministry of Information

Different perspectives toward the canal

Despite receiving applause, the canal project faced criticism over its economic feasibility, with critics arguing that the benefits might not offset the costs. In response to this, the former Prime Minister of Cambodia urged people to consider more than just economic benefits, viewing it as a historic achievement and a step towards trade independence. The Cambodian government has highlighted projected revenues of US\$ 88 million in the first year, expected to reach US\$ 570 million annually by 2050. The projections also mention an Economic Internal Rate of Return (EIRR) ranging from 20% to 31%, which is higher than the average 12% from infrastructure projects.

The Council for the Development of Cambodia disclosed that 67% of goods are transported via the Sihanoukville Autonomous Port, while the remaining 33% are transported through the Cai Mep Port in Vietnam via the Mekong River. Upon completion of the canal, the projected goods transported through the Cai Mep Port are expected to decrease to just 10%, signifying an approximate 70% decrease in volume through this port to and from Cambodia. The project also aims to reduce the travel distance by 69km, from 372km to 303km, and decrease the cost by US\$ 155 per TEU, from US\$ 1,089 to US\$ 934 per TEU when comparing between the Cai Mep Port and the Sihanoukville Autonomous Port.

In addition, critics have raised environmental concerns specifically about the impacts on the flow of the Mekong River and Vietnam called for an environmental impact assessment, a request denied by Cambodia. Although subsequently, the Cambodian government conducted a comprehensive 26-month study with international companies, using a specific methodology and involving 48 local and international specialists. The government clarified that this canal is not part of the mainstream but a tributary. The canal is expected to have a water flow of 5m³/s during the dry season, while the Mekong River has a flow of 8,000m³/s. The project will also include three sluice gates to control the water flow.

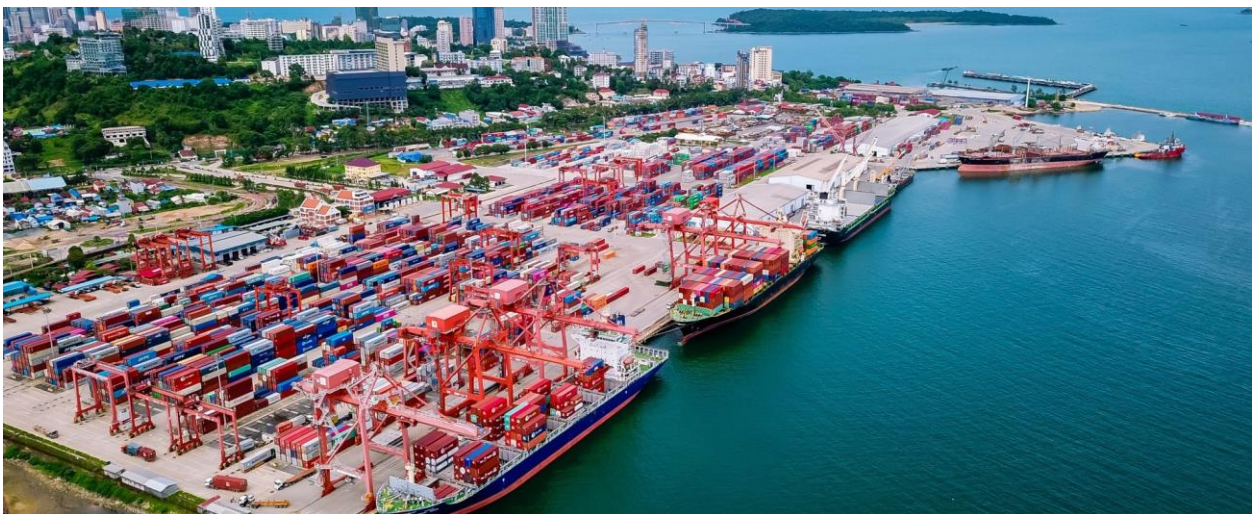
Concerns regarding the geopolitical and regional stability have been also raised, with allegations that this project is supported by China and could potentially be used for military purposes. In response to these concerns, the Cambodian government has pointed out that the constitution of Cambodia prohibits any foreign military bases in the country. This project is a Public-Private Partnership implemented through a Build-Operate-Transfer (BOT) structure and does not involve the Chinese government. Moreover, the investment is announced to be primarily Cambodian-owned, with 100% and 51% Cambodian shares in the first and the second canal section respectively.

CBRE Cambodia’s opinion on the canal

CBRE Cambodia believe the canal will undoubtedly yield immediate economic benefits and enhance options for goods logistics and transportation once completed. Firstly, the project contributes significantly to the economy by injecting liquidity of approximately US\$ 1.7 billion over a four years span. In comparison, the values are equivalent to about 42% of Cambodia’s FDI in 2023.

More importantly, in the long run the canal has a vast significance in trade independence in addition to economic benefits. The canal also provides Cambodia a direct access and shorter distance to seaports in Kampot and Sihanoukville, which enhances Cambodia’s strategic role as a logistics hub, increase logistics and trade competitiveness in the region and potentially offering significant advantages to various downstream industries.





However, the actual impact will depend on whether users find the canal a more effective option than the existing route. The utilisation rate will depend on the effective and efficient operation of the canal and the relevant supporting facilities, such as the satellite ports along the canal project, and depends on the cost factors and travel distance.



Sihanoukville Autonomous Port, Photo Source: pas.gov.kh

For Cambodia to play a vital role in regional logistics, it would need to continue developing a strategic infrastructure network in the medium and long term. The canal showcases its commitment to improving the Logistics Performance Index (LPI), as Cambodia’s logistics lag behind the region. Cambodia is developing three expressways connecting key trading areas: the completed Phnom Penh-Sihanoukville Expressway, the under-construction Phnom Penh-Bavet Expressway, and the Phnom Penh-Siem Reap-Poipet Expressway, which is in the study phase. The government is also planning the Comprehensive Master Plan on Cambodia Intermodal Transport and Logistics System 2023-2033, requiring over \$36 billion. Regional projects like the Belt Road Initiatives and Thailand’s prospective Land Bridge will also significantly impact Cambodia’s logistics.

Regional Logistic Performance Index (LPI)

Country / LPI Score (Rank)	2016	2018	2023
Malaysia 	3.43 (32nd)	3.22 (41st)	3.60 (26th)
Thailand 	3.26 (45th)	3.41 (32nd)	3.50 (34th)
Vietnam 	2.98 (64th)	3.27 (39th)	3.30 (43rd)
Cambodia 	2.80 (73rd)	2.58 (98th)	2.40 (115th)

Source: World Bank

Implications for real estate

Similar to other infrastructure developments, the development of the Funan Techo Canal is expected to attract more attention to real estate in the area surrounding the canal. The development of the canal and the supporting infrastructure is expected to draw both genuine investments and speculations. The market is anticipated to see an increase in property listings, inquiries, and transactions. The asking price of land, which is mostly farmland at the moment, is expected to increase from now until the completion of the canal. However, it's worth noting that not all areas surrounding the corridor will be good investments. Therefore, proper assessments and consultations with experts are highly recommended prior to any commitment.





The canal is expected to significantly impact city and provincial development. It has the potential to redirect Phnom Penh's industrial developments from the west to the south and southeast, influencing the city's overall development direction. Furthermore, the project is anticipated to create a new southern economic corridor for Cambodia, transforming provinces along the corridor from tourism and agriculture to more diversified economic fronts.

In the short and medium term, potential demand is expected to be present in the industrial and logistics sectors. Available land potential for setting up logistics hubs, dry ports, warehouses, industrial parks, and other industry-related facilities is anticipated to receive more interest, as the result of improved connectivity and accessibility to trade routes. In addition, the new infrastructures can open up a variety of opportunities in agricultural business, attracting large-scale agricultural projects and the establishment of agro-processing facilities, contributed by the improved market accessibility and more efficient supply chain.

Subsequently, the growth of economic activities, driven by the development of industrial and logistics, is anticipated to significantly boost the demand for both residential and commercial properties. As new businesses emerge and existing ones expand, there will be an increased need for affordable housing to accommodate the workforce. This will likely lead to the development of residential properties that cater to various income levels, ensuring that employees have access to suitable living conditions close to their workplaces. Simultaneously, the rise in business operations will create a demand for commercial spaces supporting the diverse needs of businesses.

Whilst other downstream businesses including the operation of tourism-related businesses, hotels, resorts, and various other hospitality amenities are expected to grow, the supporting infrastructures will enhance accessibility to previously less accessible areas. These facilities are now better equipped to accommodate the growing number of visitors, providing a more comprehensive establishment and enjoyable experience for tourists.

Potential business opportunities

			
Industrial and Logistics	Agri-business	Residential and Commercial	Tourism and Hospitality
<p>Development of SEZs, industrial parks, manufacturing hubs, warehouses, and logistics centres along the canal to take advantage of enhanced transport links.</p>	<p>Agricultural plantation, livestock and agro-processing will be hugely benefited by the improved market accessibility and the enhanced efficiency of agricultural supply chains.</p>	<p>Development of commercial and residential projects in the surrounding areas to support the expected influx of businesses and residents.</p>	<p>Operation of tourism services, hotels, resorts, and other tourist amenities to cater to increased visitor numbers.</p>

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