Colliers Quarterly Review

YANGON | OFFICE

Q4 2017

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Competition Exerts Downward Rental Correction

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There has been a pronounced correction in headline rents. Given the increase in competition and the entry of better-quality projects, landlords are now willing to lower prices to reasonable levels. In fact, older offices, which previously commanded premium rates, have begun adjusting rents appropriate to their quality and offerings. Meanwhile, despite the improvements in building standards, location remains a major consideration. Colliers suggests developers should be especially careful in the early stage of their design plans and commerciality. This should help them to meet many occupiers' collective preferences: convenient location, flexible floor space layout, and justifiable rental rates.

Forecast at a glance

Demand

Demand continues to pick up as rental levels remain competitive. Quicker economic reforms and further market liberalisation should facilitate growth moving forward.

Supply

Colliers expects office stock to grow with more than 75,000 sq m of new space in 2018 an increase of 17% of` the current stock. However, we expect new supply to be limited in 2019.

Occupancy rate

Colliers expects occupancy to decline in 2018 from its current 66.7% given the upcoming sizeable stock. Occupancy should eventually pick up once the new investment law is enacted.

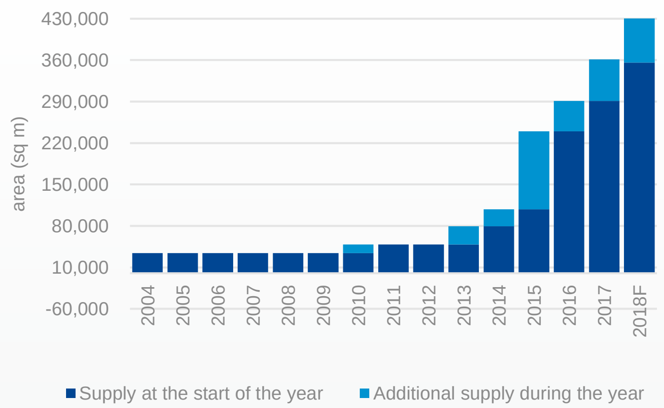
Rent

The anticipated improvements in the investment environment should drive rental rates to improve in the medium term.

Developers Advised to Focus on Commerciality

As at the end of 2017, Yangon's total office stock reached more than 356,000 sq m (3.83 million sq ft) of leasable space, up by 22% YOY. Recent completions are all located outside Downtown, including Pyi Nyein Thu (Pyi Nyein Thu Construction) in Mayangone Township; Golden City Business Centre (Golden Land Real Estate Development Co., Ltd.) in Yankin Township; as well as Crystal Tower (Shwe Taung Development Co.,Ltd.) and The Regency (Ever Best Hotel & Resorts Co., Ltd) both in Kamaryut Township. Colliers expects the total stock to build up further in the Inner City Zone, with Downtown only likely to witness a considerable increase upon completion of mixed-use development Yoma Central in 2021. Overall, new supply in 2017 totalled 65,000 sq m (700,000 sq ft), while the estimated addition for 2018 is of similar size.

Yangon Office Supply Stock (GLA)



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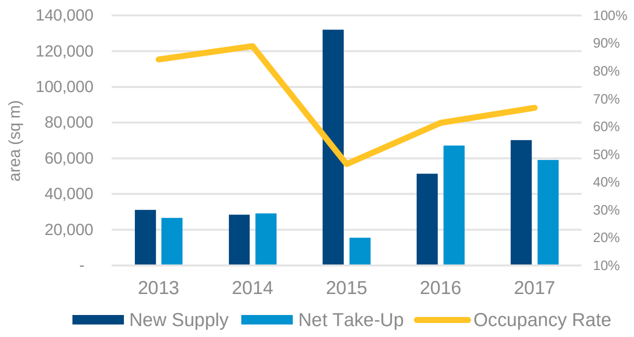
Besides projects expanding across the city, we have also observed the emergence of office units for sale. However, the practice remains in a nascent stage. In the past year, these few select projects have recorded average sales performance and Colliers thinks more time is likely until this concept is fully embraced. Meanwhile, the increasing stock in the recent years has also reflected better building designs, evident with modern projects like Sule Square and Junction City. The improving quality is most likely to continue with future projects looking promising. In fact, we have observed certain upcoming office buildings such as Kantharyar Centre, Time City and M Tower adopting international standards e.g. curtain wall system, high floor-to-ceiling height, spacious lobby, as well as better floor plate and efficiency. Given all these recent developments, Colliers expects competition to intensify in the near to medium term. In turn, we advise developers to be strategic in their early design plans. The building quality matched with a convenient location is a key consideration among many tenants. Rental rates should similarly be positioned based on the degree of these offerings.

Net Absorption Sustained Healthy Levels amid Increase in Supply

Demand remained resilient despite the sizeable additional supply delivered in 2017. In line with our previous forecast, the net annual take-up reached close to 60,000 sq m (645,850 sq ft) - sustaining healthy levels, almost equal to that in 2016. The increase in new space occupied resulted from continuous “flight to quality” and was partly driven by some business expansion. Overall, the competitive rental environment has encouraged tenants to upgrade into better quality office buildings and/or relocate from informal offices.

Yangon Office Net Take-up



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As at-end Q4 2017, the average occupancy rate stood at 66.7%. The number is down by 3.9% QOQ given the considerable stock delivered. Colliers predicts that occupancy will head for another decline in 2018 at an estimated 2-4% following the rise in additional stock. Perhaps this will be smaller than in 2017 as recent take-up levels reveal a strong performance. In particular, newly completed developments have registered healthy occupancy rates, collectively at 40%. Further market liberalisation along with quicker economic reforms is fundamental going forward. The enactment of the new Investment Law will likely boost demand in the medium term. This, along with the limited supply in 2019, should overall drive occupancy levels to move further upwards.

Rents Recorded Further Correction

The average rent dropped for the first time in five quarters driven by the entry of new competition offered at relatively competitive rates. Older buildings, which previously commanded premium rates, have begun adjusting rents which appears appropriate to their quality and offerings. Some headline rates have in fact decreased by as much as 25%. Despite the declining trend, Colliers still sees this as a commonplace occurrence, and merely a correction from a previously low supply base.

Yangon Office Rental Rate

City-wide	Q3 2017	Q4 2017	QoQ Change	Q4 2018F	YoY Change
USD/ SQ M / MONTH	45.21	43.52	-3.7%	40.6	-6.8%

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Meanwhile, while some projects have now set higher building quality standards, rental levels are continually viewed at a premium compared to others in the Southeast Asia region. Second only to Singapore, Yangon commands some of the highest rents for prime office buildings at USD 50 per sq m. This, despite the disparity in building quality between these cities. Despite the high rents, Colliers still expects some multinational firms to settle into in these top-tier buildings. However, we also see the market leaning towards value for money associated with quality and location. We continually advise landlords to adjust rents further to reflect their positioning. Landlords of older developments should consider undertaking renovations and upgrading current facilities to maintain an advantage over future competition.

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