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Landlords Face New Competition Ahead

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We expect competition to gradually intensify with supply doubling within the next three years. This will perhaps be more pronounced in the upscale segment. In fact, the entry of higher quality projects in 2017 has already driven rents towards more competitive levels. There is similarly a notable shift in the overall unit mix favouring one and two-bedroom units. Despite the price correction, affordability remains unaddressed. Colliers still sees strong untapped demand for modern quality limited serviced apartments and dedicated apartments for lease. We urge developers to focus on these segments instead.

Forecast at a glance



Demand

Expatriate housing requirements should continually increase at least in the near to medium term. However, there remains widely untapped demand for lower-tier but modern quality serviced apartments.



Supply

We expect supply to double in the next two to three years. More than 2,500 units are slated for completion in both 2019 and 2020 alone.



Occupancy Rate

The considerable rise in upscale developments should exert downward pressure on overall occupancy going forward.



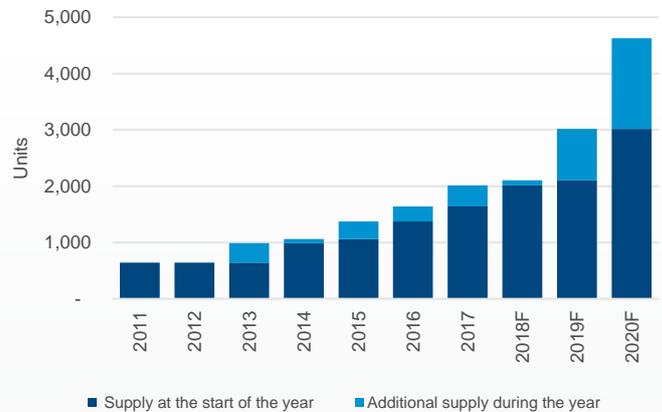
Rent

Rents are becoming competitive but remain generally high. We expect the downward correction to become more pronounced starting 2019 as new supply heightens.

Supply to Substantially Rise in the Medium Term

During 2017, new supply grew by 39% YOY with an additional 370 rooms - a new record high over the past five years. The considerable rise was driven predominantly by the opening of Lotte Serviced Apartments in Q3 2017. In fact, this large-scale upscale development represented 85% of the added stock for the year. Meanwhile, other completed projects are in the lower-tier segment, namely Northern Inya Serviced Apartment as well as Clover Suite Royal Lake (expansion) and SOHO Diamond (expansion). The year ended with the city-wide stock reaching more than 2,000 units. Reductions in inventories were also recorded following renovation works in some developments.

Yangon Serviced Apartment Room Stock



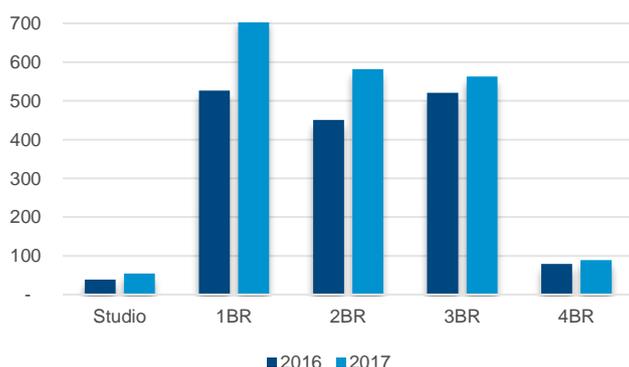
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Moreover, compared to the previous years, the unit configuration has shifted more towards one-bedroom units. In fact, with better quality and more affordable developments coming into play, we have observed that existing developments have begun undergoing noticeable revamps and refurbishments. This includes building expansions designed for smaller room sizes, and aimed for budget sensitive expatriates. Colliers sees this as a necessary strategy in view of the rise in competition especially in the medium term. While the stock is limited in the immediate future, we see a growing number of upscale developments starting 2019.

These include Somerset @68 Residences, Kantharyar Serviced Residences, and Sedona Suites. Along with other sizeable projects in the pipeline we predict the total stock to double by 2020. In light of this upcoming competition, Colliers recommends existing projects to make necessary upgrades. Outdated developments should start with updating in-room amenities with a focus on efficiency and modern furnishings. Exterior face lifts as well as refurbishments to common areas and facilities will also help reinforce marketability. Furthermore, demand for more budget-friendly serviced apartments and dedicated apartments for lease remains widely untapped, given the lack of competition in the condominium for rent sector. Specifically, we expect smaller-scale developments of basic but functional features to gain better traction moving forward.

Unit Configuration Shifts Towards Smaller Units

Yangon Serviced Apartment Unit Type Configuration



Overall, the additional supply delivered in 2017 has exerted considerable changes in the city-wide unit configuration. The most pronounced is in the one-bedroom inventory which grew by 35% YOY. The two-bedroom category follows next reaching 580 units, up by 29% YOY. Colliers sees demand continually gravitating towards these unit types, evident from the healthy performances of Lotte Serviced Apartment and Northern

Inya Residence. Delivered only during H2 2017, both developments have managed to reach 67% occupancy. On the other hand, studio and four-bedroom units across the city are fully occupied, owing to their generally limited stock. One and two bedroom units generate stronger take-ups. The city-wide occupancy rate ended 2017 at 81%, up by 4 percentage points QOQ. While the rate is down by 7% annually, we predict that it will rebound to sub 90% levels given the limited supply in 2018.

Yangon Serviced Apartment Occupancy Rate

City Wide	Q3 2017	Q4 2017	QOQ Change	Q4 2018	YOY Change
Occupancy	77.9%	81.5%	3.5%	89.3%	11.4%

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Rents Correct Downward Amid Competition

Yangon Serviced Apartment Average Rental Rate per Unit Type per Month (USD)

City-wide	Studio	1BR	2BR	3BR	4BR
Rental Rate	1,930	3,640	4,500	5,370	7,730

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The entry of new projects commanding competitive rates has forced existing developments to lower prices. Rents have decreased across all segments. The highest decrease has been in the studio unit average rate which closed Q4 2017 at USD1,930, down by 17% QOQ. Rates for both one and two-bedrooms decreased by 7 and 4%, respectively. In general, Colliers still believes that developers should continue to configure room designs towards smaller units. Besides addressing affordability, the recommended configuration also suits the current demand coming from single and couple expatriates. It should also help avoid potential competition from upcoming larger condominium units, likely to be offered for lease. We expect rental rates to further correct as competition intensifies over the next two to three years.

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