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OCCUPANCY LEVEL REMAINED HEALTHY AS TENANTS PRIORITISE QUALITY

SUMMARY & RECOMMENDATIONS

As at the end of Q3 2018, citywide occupancy level remains at a healthy state, however a slight decline was observed following the recent flight to quality for some tenants. Given the strong development pipeline for 2019, along with the changing demographics such as the increasing young population, Colliers encourages both developers and operators to rethink their projects and start differentiating their offerings with more emphasis on experience and convenience. We continually see a promising future for large-scale shopping malls and lifestyle-oriented centres. Likewise, introducing destination retail establishments geared towards recreation and entertainment will bode well in the market going forward.

		Q3 2018	Full Year 2018	2019–22
DEMAND	> Demand for retail space should remain strong in the long term. We expect high foot traffic for malls with unique features and diversified tenancy moving forward.	▼ 1,764 sq m	▲ 58,000 sq m	▲ 65,000 sq m
SUPPLY	> Retail stock remains unmoved as of Q3 2018. Colliers anticipates a record surge in supply to occur in 2019 – totaling to almost 150,700 sq m (1,622,121 sq ft) of additional leasable area.	◀▶ 0 sq m	▲ 405,690 sq m	▲ 586,506 sq m
		End Q3/QOQ	**End 2018/YOY**	**End 2022/ Annual Average Growth 2019–22**
OCCUPANCY	> Occupancy drifted downwards at 92% amid lack of new supply observed in this quarter. We project a temporary decline in rates given the sizeable supply expected in the next six months.	*0.51pp* ▼ 92%	*1.5pp* ▼ 91.5	*1.5pp* ▲ 93%
RENT	> Colliers expects rental rates to gradually increase in the next two to three years, on the back of strong demand coupled with the improving spending capacity of the population.	◀▶ USD 32.10	*1.24%* ▲ USD 32.5	*4%* ▲ USD 33.5

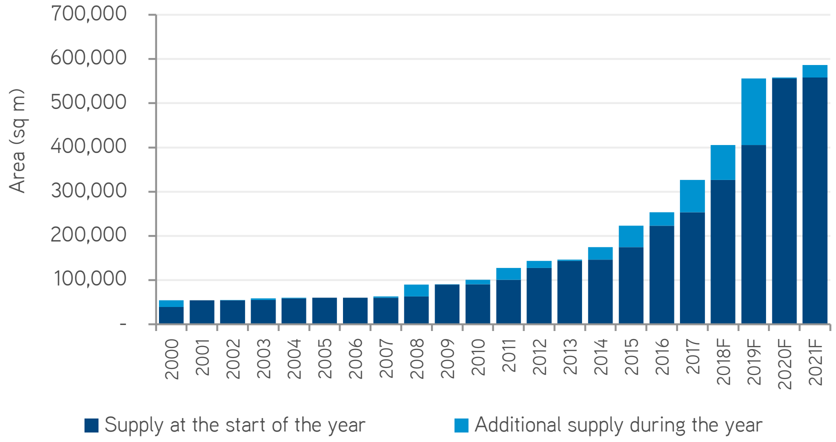
Note: The rental figures are reported in USD per sq m per month
Source: Colliers International Myanmar

HIGHEST ANNUAL ADDITION FORCASTED IN 2019

Towards the end of Q3 2018, no new retail development was introduced. This can be explained by the sluggish construction activity observed in several projects. As a result, Yangon's total retail stock remained unchanged, leaving the integrated components in Shwe Oak Khai's Spring Line and Htike Sin Co., Ltd.'s Times Link the most recent retail developments. Nonetheless, the pipeline for end-2018 remains strong. In fact, two shopping mall projects (Kantharyar Shopping Mall by Asia Myanmar Shining Star Investment Co. Ltd., and Central Boulevard – Phase 1.1 of Marga Landmark) and a supporting retail component (Space @ Yankin by Crown Roofing Co. Ltd.) are expected to complete in Q4 2018 – all situated in the Inner City Area.

Following the recent delays, we have revised our forecast and we expect a record surge in supply to occur in 2019 instead – totaling to almost 150,700 sq m (1,622,121 sq ft) of additional leasable area. Notable developments such as the partial completion of The Central Boulevard (Phase 1) by Marga Landmark, Fortune Plaza (Phase 1) by Excellent Fortune Development Group and Yadanar Mall by Crown Advanced Construction Co., Ltd., are all expected to contribute to the aggregate supply for the said year. Meanwhile, in terms of retail classification, Colliers anticipates majority of the future supply in the next three years to fall under the shopping mall category. Projects such as Inno City by Inno Co., Ltd., Yoma Central by YOMA Land and The Garden by Kajima Corporation are some of the sizeable shopping malls set to debut between 2020 and 2021. However, additional stock in each of 2020 and 2021 is meagre. (*See Figure 1*) As such, we advise developers to take advantage of this opportunity. As more developments are introduced and as competition further intensifies in the coming years, developers are advised to continually aspire for international standard quality and practices. Adopting these initiatives will drive value enhancement as well as help leverage over competition going forward. In the meantime, Colliers encourages developers to aspire for more curated and compelling offerings targeted to the growing lower to middle income classes and to the unbanked young population.

FIGURE 1: YANGON RETAIL SUPPLY STOCK (GROSS LEASABLE AREA - SQ M)



Source: Colliers International Myanmar

FIGURE 2: JUNCTION CITY

Source: Colliers International Myanmar

BANKING ON THE YOUNG POPULATION

Myanmar's large youthful demographic spawns a dynamic consumer market with robust growth potential. In a recent regional study piloted by Vero, it was reported that the volume of "Millennials" and "Generation Z" totaled to approximately 20 million as at the end of 2017, accounting for approximately 33% of the total Myanmar population. In 2030, Vero projects this segment to increase to 32 million. As Colliers sees it, this rising segment of the population has the potential to become a very marketable segment and is likely to fuel continuous growth across the retail sector.

This theme should drive developers to adopt and incorporate "full-experience" approach around the products and offerings they provide. Developers need to analyse their malls' theme and positioning and identify unique retailers with entertainment & community-tied components. Across all income classes, especially those within ages 15-30, Deloitte remarked a notable pattern: as household incomes increase, spending on entertainment and recreation correspondingly increases. Entertainment and recreation accounts for about 8% of the average household expenditure, comparable to other more mature markets such as Singapore (6.5%) and Japan (10%). While this figure is among the highest scores in regional ranking, this remains unrealized, evident with limited recreation and domestic entertainment options in the city.

Colliers believes that streamlined offerings should be introduced going forward, along with the lines of lifestyle-oriented hubs, regional shopping centres, and destination malls. In the meantime, we continually advise developers to push for a well-curated tenancy mix. Adding more distinctive tenants (e.g. food halls, amusement parks, movie theaters, arcades, bowling alleys, event gathering spaces, fitness centers, etc.) to shopping centers is a direct response within the industry to accommodate the changing shopping behaviors and new preferences. Besides location being a key consideration for malls, a differentiated design and structure (e.g. higher ceilings, water features installations, indoor pocket gardens, creative and smart layout designs, clerestories, etc.) is increasingly as important.

Developers may similarly want to incorporate new technologies in their products that can enhance consumers' mall experience. Those that provide convenience such as digital parking guidance or mobile mall guides/maps, events and promotions, Wi-Fi access, are cited more often, followed by technology that engages customers by building relationships through social media, loyalty programs and targeted marketing.

Overall, given the promising potential of Myanmar's population, understanding the group's lifestyles, motivations and preferences is critical for both developers and retailers. While this age segment is similar in some aspects to older consumers, they also demonstrate distinct behaviors— including heightened focus on experience, personalization, and social engagement—that must be weighed to increase the volume of foot traffic and the shopping mall's value

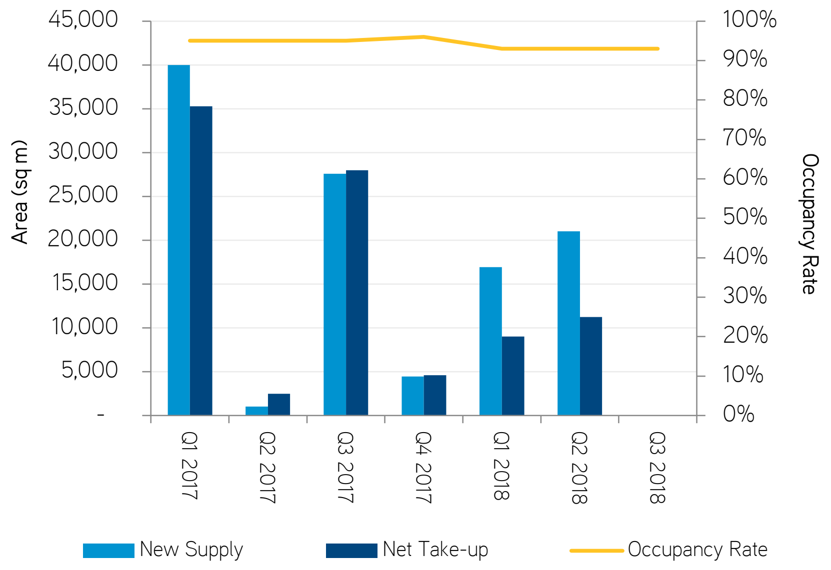
FLIGHT-TO-QUALITY CONDITION TO GROW STRONGER

Despite the absence of new stock seen in Q3 2018, the citywide occupancy rate further declined, both on a quarterly and annual bases, however remained above 90%. This resulted from recent flight to quality witnessed in some developments. Some tenants are more keen towards more modern developments such as Junction City, St. John City Mall, Myanmar Plaza, etc. Colliers believes it is worthwhile for older developments to embark refurbishments or redevelopments in their establishments.

Looking ahead, the sizeable supply anticipated for the remainder of 2018 may exert downward pressure on occupancy – albeit at a lesser degree as tenant pre-commitments remain strong. Likewise, retailers' confidence remain upbeat, evident from the continuous store expansions and foreign franchise acquisitions (e.g. Krispy Kreme, Bon Chon Chicken, Coffee Bean and Tea Leaf, etc.). With the recent easing of trading restrictions in the country, we expect the entry of more foreign retailers wanting to set a foothold in the city. Colliers thinks that further liberalisation of restrictions for foreign trading should fuel demand in the succeeding years.

Meanwhile, the average rental rate remained at the sub-USD 33 per sq m per month level, an increase of 3% from the same period last year. The introduction of more quality standard malls means that rents may further trend upwards in the succeeding years. The continuous entry of foreign brands, particularly F&B chains, is likely to reinforce uphill pressure on rents, however to be capped at modest levels.

FIGURE 4: YANGON RETAIL NET TAKE-UP AND CITYWIDE OCCUPANCY RATE



Source: Colliers International Myanmar

TABLE 1: YANGON CITYWIDE LEASE RATE (USD/SQ M/MONTH)

CITYWIDE	Q3 2017	Q3 2018	YOY CHANGE	Q3 2019F	YOY CHANGE
USD/ SQ M / MONTH	31.1	32.1	3.2%	33.5	4.4%

Source: Colliers International Myanmar

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