



PAUL RYAN CUEVAS  
Analyst | Research & Advisory  
Myanmar  
+95 (0) 9 762 276 685  
[paulryan.cuevas@colliers.com](mailto:paulryan.cuevas@colliers.com)

# DOWNWARD CORRECTION IN RENTAL RATES AMID DEARTH IN NEW COMPLETIONS

## SUMMARY & RECOMMENDATIONS

Since Q4 2017, no new projects were introduced. During the past four quarters, Yangon only witnessed renovation and expansion initiatives from the already existing developments. In turn, as at the end of Q3 2018, the citywide occupancy rate managed to rise above 84%. Conversely, rental rates across all unit categories have marginally declined. While rates are already becoming competitive, Colliers still sees a vastly untapped market for lower-tier but better-quality projects. We strongly recommend developers to introduce alternative options instead which cater to most expatriates' modest budgets. These projects can be designed with basic but functional facilities, but still offer modern comforts.



DEMAND

> Expatriate housing requirements will continually increase in the next two years. However, there remains a widely untapped demand for lower-tier but modern quality serviced apartments.



SUPPLY

> We expect the stock to double in the next two to three years. More than 2,400 units are slated for completion between 2019 and 2021.



OCCUPANCY

> We see overall occupancy rates rising modestly in Q4 2018 given the volume of projects coming online. However, it is expected to decline once new supply comes in.



RENT

> Rental rates remained generally stable in the past year. We expect rents to become more competitive as supply becomes substantial in the next two years.

Q3 2018

Full Year 2018

2019–22



Note: The figures for rent represent USD per sq m per month  
Source: Colliers International Myanmar

## NO NEW SUPPLY UNTIL Q4 2018

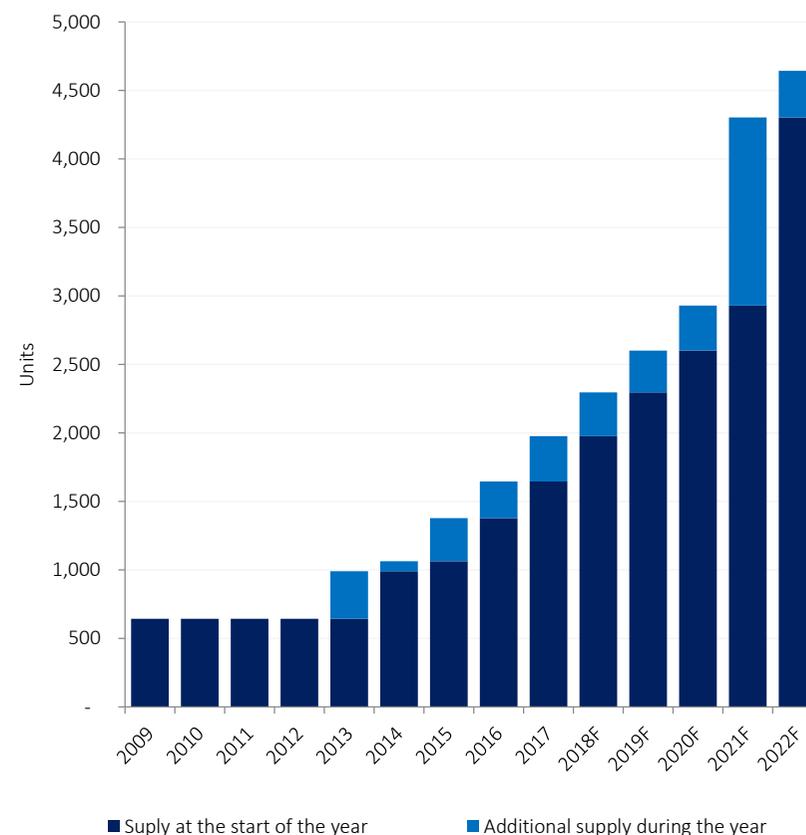
As at the end Q3 2018, no new serviced apartment projects were introduced. Since Q4 2017, the total supply remained stable at more than 2,000 rooms. Due to the witnessed limited construction progress, some developments that were expected for completion during the past four quarters were further pushed back to a later period. This leaves Lotte Serviced Apartment and Northern Inya Serviced Apartment as the latest completed projects, together with the expansions (e.g. Clover Suite Royal Lake, SOHO Diamond, ) and renovations (e.g. Sakura Residences 1) of existing developments.

Resulting from the construction delays, the pipeline for the rest of the year has significantly declined. Upcoming projects in Q4 2018 only include Kantharyar Serviced Residences and the extension of Clover Suite Royal Lake, collectively representing approximately 280 rooms. As Colliers sees it, the existing low-level inventory will continue to be inadequate as opposed to the rising number of expatriate housing requirements.. Nonetheless, developers are now beginning to take heed of the city's bantam-sized supply. In fact, the stock is set to double in the next two to three years as new and large-scale developments are completed. Around 10 sizeable projects are estimated to be completed between end-2018 and 2022, translating to more than 2,700 new rooms.

Looking closely, the supply pipeline will continually be strong in the Inner City Zone, to be reinforced with future projects such as the Somerset @ 68 Residences, The Loi, Golden City Serviced Apartments, and HAGL Myanmar Centre Serviced Apartments. An improvement in stock is likewise anticipated in the Outer City Zone once Inno City's serviced apartment tower is delivered. Meanwhile, the eventual introduction of Junction City Serviced Apartments in the future means a return of supply in Downtown, following the absence of stock since the demolition of Grand Mee Ya Hta Residences in 2013.

Meanwhile, few select projects have also announced their conversion plans. Some projects previously envisioned as residential condominiums or commercial office spaces are now being redesigned to integrate serviced apartment components.

FIGURE 1: YANGON SERVICED APARTMENT SUPPLY STOCK (UNITS)



Source: Colliers International Myanmar

Overall, the market remains lagging in terms of the quantity and quality being offered in Yangon's neighboring ASEAN cities. Alternative users have remained untapped with expatriates from various industries remaining at bay within the extended stay use in Yangon. However, with the market still at its infancy stages, further market entries are expected to increase serviced apartment users in the city.

## ASIA'S RELOCATION TREND: A KEY DRIVER OF GROWTH

Asia is the world's biggest market for business travel and relocation, accounting for almost 40% of US\$1 trillion in annual spending globally. According to The Apartment Service Worldwide, the volume of global relocation of employees from Asia is expected to escalate further in 2026, with its rate of expansion four times quicker than the North American market and more than twice that of Europe.

Upon the initial liberalisation of Myanmar's political and economic landscape, many in the international community are realising the huge potential held in this economic frontier. A number of multinational corporations are exploring Myanmar as an investment destination bringing in expatriates with vast experience to help build capabilities locally. With such, Yangon developers and operators must take heed in understanding the needs of this marketable segment. In a recent survey conducted by McKinsey & Company in the country, they reported clear differences in housing needs from country to country. For example, Singaporean expatriates keep a tighter rein on their personal budgets, even as they yearn for comfort and luxury. Chinese business travelers place strong emphasis on service and prestige. Finally, Japanese expatriates distinguish strongly between work and leisure and are highly budget-conscious. Yet it also pinpointed four common expatriate archetypes: service seekers (34% of respondents), stereotypical suits (32%), belt tighteners (17%), and maximizers (17%). These four groups transcend geographic boundaries and are just as important to understand as national differences. Each group has its own focus: stereotypical suits clearly emphasize convenience; service seekers, service and brand; belt tighteners, price and value; and maximizers, loyalty programs and comfort. Colliers believes that differentiated offerings are required for developers and operators to engage, serve, and benefit from the preferences of each archetype.

By and large, companies are expected to remain vigilant on managing operational costs, which will continue to put downward pressure on housing budgets of expatriates in Myanmar. With global mobility remaining a key strategic initiative with MNCs, demand for short-term housing is expected to grow.



The changing business climate in the country will continue to lead to tenants trading down to the mid-range of the market. These secular trends will steer demand towards smaller suites typically found in standard and boutique serviced apartment schemes. As such, luxurious fit-outs are not necessary. Likewise, the trend for investors to package hotel suites as low-serviced hotels (LSHs) is expected to continue given the added flexibility of being able to charge daily rates under a hotel operation.

Meanwhile, Colliers also recommends existing projects to make necessary upgrades. Older and poorly-maintained developments should start with updating in-room amenities with a focus on efficiency and modern furnishings. Exterior face lifts as well as renovations to common areas and facilities will also help underpin marketability.

## RENTAL RATES DROP AMID LIMITED SUPPLY ENTRY

The citywide occupancy rate settled above 84% an increase of 0.7% QOQ and 6.5% YOY. We anticipate a further upward movement towards the end of the year given the limited supply. For 2019, a decrease is likely temporary as demand prospects appear promising. However, the trend should be more pronounced across lower-tier but modern serviced apartments.

Meanwhile, rental rates are starting to become more competitive having corrected downwards over the previous years. In fact, operators have lowered their rental rates as of Q3 2018 despite the absence of new projects. Rental rates across categories declined by 1-3% accordingly. Although upscale developments have witnessed limited price movements, the anticipated rise in competition should exert further downward pressure on rental levels in the next two to three years.

Overall, the anticipated improving business climate in the country will persistently play a crucial role in shaping the demand for serviced apartments in Yangon. With the government's determined efforts in further improving and setting more economic reforms and policies, the number of inbound international firms is expected to continue rising, ultimately driving an increase in foreign manpower requirements. Further liberalisation in the banking, manufacturing, and retail industries as well as the eventual opening of the insurance industry in the coming years should provide an added boost to demand going forward.

TABLE 1: YANGON SERVICED APARTMENT CITYWIDE OCCUPANCY RATE (BY LOCATION)

CITYWIDE	DOWNTOWN	INNER CITY	OUTER CITY	CITYWIDE	QOQ	YOY
OCCUPANCY RATE	N/A	88%	74%	84.4%	0.7%	6.5%

Source: Colliers International Myanmar

TABLE 2: YANGON SERVICED APARTMENT AVERAGE RENTAL RATES (USD/Unit Type/Month)

CITYWIDE	STUDIO	1BR	2BR	3BR	4BR/PENTHOUSE
(USD/Unit Type/Month)	1,920	3,845	4,843	5,348	7,526

Source: Colliers International Myanmar

## PRIMARY AUTHOR

PAUL RYAN CUEVAS  
Analyst | Research & Advisory | Myanmar  
+95 (0) 9 762 276 685  
[Paulryan.cuevas@colliers.com](mailto:Paulryan.cuevas@colliers.com)

## CONTRIBUTORS

YE HTUN THET PAING  
Senior Researcher | Research & Advisory | Myanmar  
+95 (0) 9 505 9431  
[William.Linn@colliers.com](mailto:William.Linn@colliers.com)

SHWE YI  
Researcher | Research & Advisory | Myanmar  
+95 (0) 9 505 9431

## FOR MORE INFORMATION, PLEASE CONTACT:

KARLO POBRE  
Deputy Managing Director | Myanmar  
+95 (0) 979 573 3378  
[Karlo.pobre@colliers.com](mailto:Karlo.pobre@colliers.com)

THE HTET OO  
Manager | Research & Advisory | Myanmar  
+95 (0) 943 190 707  
[Thehtet.oo@colliers.com](mailto:Thehtet.oo@colliers.com)

JOSHUA DELAS ALAS  
Manager | Research & Advisory | Myanmar  
+95 (0) 931 491 678  
[Joshua.delasalas@colliers.com](mailto:Joshua.delasalas@colliers.com)

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