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Rate Corrections Continue Despite Lack of New Supply

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Headline lease rates corrected further downwards during Q1 2018 despite the lack of new supply. Occupancy rates, however, improved, particularly in developments which underwent significant price reductions previously. As more international standard office buildings become available Colliers expects rental rates to continue to correct albeit at more reasonable levels especially in the near term. Landlords are now carefully adjusting prices to better justify both their building quality and location. Meanwhile, older developments are similarly under pressure, and have started to cave in to competition.

Forecast at a glance



Demand

Demand should remain firm, more so in newer developments. Tenants are becoming more particular with their requirements amid the lowering trend in rental rates.



Supply

We expect total stock almost to double over the next three years. More than half of the buildings are expected to be of international standard quality.



Occupancy rate

We expect occupancy to decrease in 2018 given the upcoming sizable stock. However, occupancy should rebound from 2019 onwards.



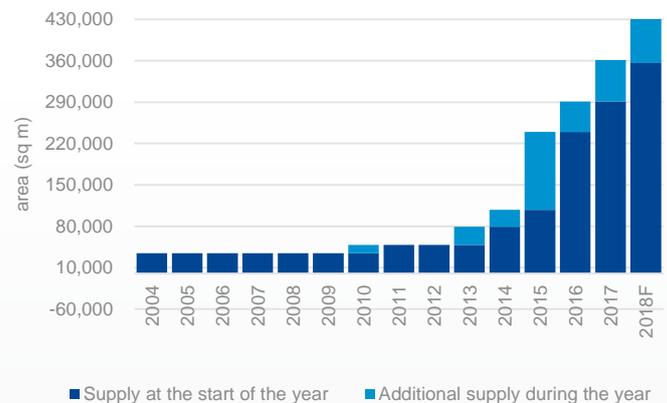
Rent

We still expect rates to correct further downwards, especially in older developments. However, the entry of better quality office buildings could exert upward pressure on the city-wide rate within the next two years.

High Quality Expectations for Upcoming Supply

Supply was unchanged as of the first quarter of 2018. Total stock remained at just over 350,000 sq m (3.8 million sq ft). Colliers expects the improvements in quality to persist especially as upcoming masterplanned developments aim to deliver international quality office projects. By Q2 2018 Kantharyar Office Tower (Asia Myanmar Consortium Development Co., Ltd.) in Mingalar Taung Nyunt and Mindama Office Center (China Company Ltd.) in Mayangone are expected to come onstream, collectively providing more than 33,000 sq m (357,000 sq ft). We project total upcoming supply for 2018 to reach more than 83,000 sq m (894,000 sq ft), the majority of which is located in the Inner City.

Yangon Office Supply Stock (GLA)



Colliers International Myanmar

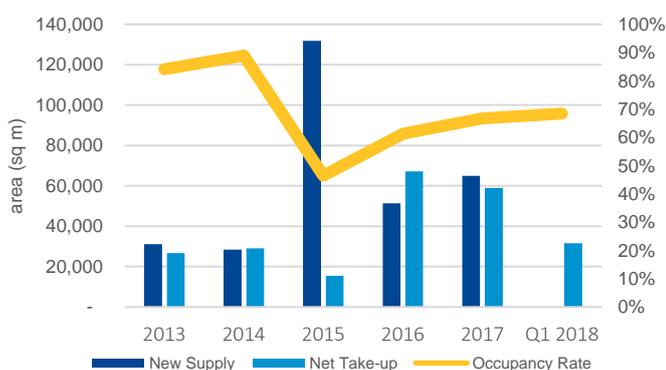
Developments continue to build up in the Inner and Outer City with Downtown only expecting an increase in stock in 2021 after the completion of Yoma Central Office Tower (Serge Pun and Associates & Yoma Strategic Holdings) in Pabedan. Upcoming developments in the Inner City include Kantharyar Office Tower, Red-Hill Mix-Use Tower (Naing Group and KBZ Bank) in Sanchaung, and Time City Office (Crown Advanced Construction Co., Ltd.) in Kamaryut, all of which are due to be completed in 2018. Incoming development plans also adopt more modern globally practised aesthetics such as curtain wall systems, wider lobby spaces, and higher floor to ceiling ratios.

Colliers advises landlords of older projects in particular to commence renovation and restoration plans in order to compete effectively with new projects and to avoid further downward adjustments in rental levels.

Occupancy Rates Inch Towards a Recovery

As of the end of Q1 2018, the city-wide occupancy rate has started to rebound to 68% QOQ, up by 1% as supply remained unchanged. The rate had decreased from Q3 to Q4 2017 by close to four percentage points given the sizable stock added towards the end of 2017. Tenants from older developments have taken advantage of the competitive rental rates offered in newer better-quality developments, as they expand and upgrade their requirements. Meanwhile, older developments which previously made rental reductions are beginning to attract more tenants coming from rather informal office spaces. These buildings are similarly providing alternative venues for new market entrants with limited budgets.

Yangon Office Net Take-up



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Although affordability, location and quality remain major concerns for tenants, Colliers has observed that in some cases tenants are now taking other factors into account. Staff accessibility, building health and safety standards, as well as provisions and proximity to affordable food and beverage options have increased in

importance. To further attract high-profile tenants, Colliers recommends developers to integrate these related services and

building specifications. Building design should adopt international standard practices in terms of tenants' safety and wellness (e.g. building safety drills, redundant security measures, and efficient ventilation systems). Provision of clean and affordable F&B options is a key advantage considering the modest budgets of most local staff.

Rents Decrease Marginally

The average city-wide rent decreased marginally to USD43.4 per sq m per month in Q1 2018 from USD43.5 in Q4 2017. Colliers expects average rent to stabilise at just below USD43 in the near term. However, the entry of better quality developments could well exert upward pressure on rents in the medium term. Landlords of developments with high occupancy rates are more hesitant about making price reductions considering tenants are still locked in their old contract terms. However, this is seen to change should better and more options become available. Higher rates set by upcoming better-quality developments is probable and could likely skew rents upward should demand continue to grow.

Yangon Office Rent

City-wide	Q4 2017	Q1 2018	QoQ Change	Q1 2019F	YoY Change
USD/SQ M / MONTH	43.4	43.4	-0.4%	42.6	-1.9%

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Compared to older developments, projects introduced in recent years offer more competitive rents - ranging from as low as USD23 per sq m for the lower-grade buildings to as high as USD58 per sq m per month for the higher-quality developments. Average rents for the Inner City have started to match those of Downtown, standing at between USD42 per sq m per month and USD50 sq m per month. In the near term, Colliers expects certain promising office buildings in the Inner City to achieve rents matching or perhaps slightly surpassing the rents achieved in Downtown. Overall, we expect rents in master planned developments, integrated projects and well-established commercial zones in particular to achieve premium levels.

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