

## New Supply Exerts Downward Pressure on Lease Rates

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**Citywide take-up in Q2 2018 remained strong amid further corrections on citywide lease rates. Colliers sees a continuous flight to quality, especially from tenants of informal and older office spaces moving to newer developments. Investment sentiment is positive especially from Asian markets namely China, South Korea, Japan, and Singapore. Furthermore, the liberations of various business sectors will likely drive demand in the medium term.**

### Forecast at a glance



#### Demand

Demand remained strong as net take up registered close to 10,000 sq m in Q2 2018. Continuous flight of tenants towards quality offices is still the main driver with this trend stabilising in the short to medium term.



#### Supply

New supply in 2018 should set a record, and is the largest quantity since 2015. Though fewer projects are slated for 2019, a substantial rise in stock is likely from 2020-2021.



#### Occupancy rate

We project occupancy rates to decrease following the substantial new supply in the second half of the year; but should rebound with new supply limited in 2019.



#### Rent

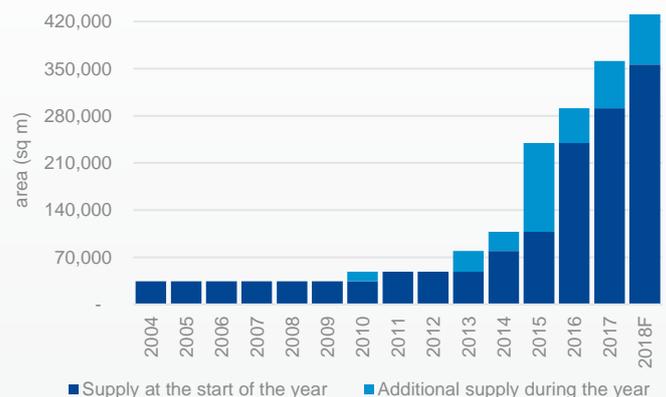
Rents to continue declining with upcoming projects likely to be more competitive. Colliers expects rents to hover between USD30 and 35 per sq m per month in the medium term.

## Largest New Supply Since 2015

The upcoming additional supply for 2018 is one of the highest since the completion of HAGL Office Towers in 2015. The addition of almost 25,000 sq m in Q2 was driven by the completion of Kantharyar Office Tower (developed by Asia Myanmar Consortium Development Co., Ltd.) in Mingalar Taung Nyunt Township. As a result, the citywide office stock totalled to more than 381,000 sq m. Colliers anticipates more than 61,000 sq m of leasable space to come online in the second half of the year.

Upcoming developments include Red Hill Mix-Use Tower (Naing Group and KBZ Bank) and Time City Office Towers (Crown Advanced Construction Co., Ltd.) in the Inner City. Future developments in the Outer City includes Spring Line (Shwe Oak Khai Construction Co., Ltd) and Mindama Office Center (China Company Ltd.). We also expect Downtown's office stock to increase with the opening of Maha Nawarat Office Tower (Maha Nawarat Myay Co., Ltd.) in Botahtaung Township. We estimate total additional supply for the year to reach more than 86,000 sq m. New supply should be limited in 2019 but will probably increase by more than 70,000 sq m in 2020.

**Yangon Office Supply Stock (GLA)**

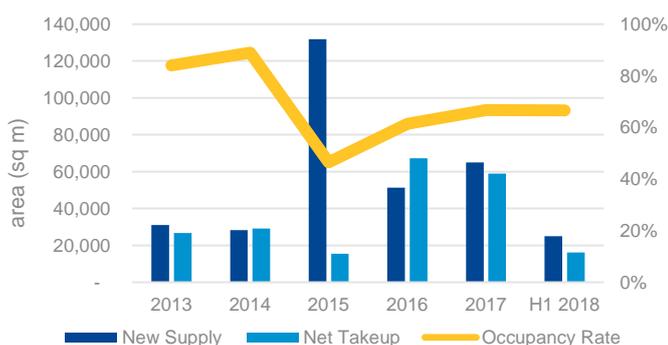


In terms of quality, more than 70% of the upcoming developments should meet international quality standards, with the majority of these being in the Inner and Outer City submarkets. Only Yoma Central (Yoma Land) is located in Downtown. Colliers continues to recommend older projects undergo renovations and improve property management in order to remain competitive in the market.

## Net Demand Remains Healthy

Net take-up remained strong registering close to 10,000 sq m in Q2 2018, up by approximately 62% QOQ. Despite this, occupancy rates declined mainly driven by the increase in stock. We expect rates to recover in the following quarter as the recently completed Kantharyar Office Tower gains further momentum. Improvements in occupancy were more pronounced in higher quality offices such as Sule Square, Junction City, and Crystal Tower which saw a collective QOQ increase of 19% in occupancy level. Other office buildings such as Centrepoin, Union Business Center, HAGL Office Tower, 8 Mile Business Centre, and Hledan Centre likewise witnessed moderate increases.

### Yangon Office Net Take-up



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Colliers has likewise observed that some tenants have started to tend towards the Inner City. However, the movement of major occupiers to Downtown can be explained by their need to be nearer to their clients and business partners.

As established businesses continue to grow and expand, most of them opt for offices Downtown given the availability of better-quality buildings offered at more reasonable prices. Other features drawing tenants Downtown include: generous parking, decent quality and reasonably priced F&B options, building safety and emergency preparedness measures as well as accessibility to transit including bus stops have gained importance for many companies. Overall, reasonable rental rates, good building quality, efficiently designed floor plates, and high building upkeep remain paramount to most tenants' consideration.

## New Supply Enters Market at Competitive Rates

Average citywide lease rates decreased 1% QOQ to USD42.90 per sq m per month. The correction was due to Kantharyar Office Tower coming online at a more competitive rate. Prices are likely to continue declining in the next quarter due to the competitive price point introduced by new developments. Rates are likely to correct to approximately USD40 per sq m per month by the end of the year given the substantial amount of supply coming online by the end of the year. The trend is likely to continue and should to hover between USD30 to 40 per sq m per month in the medium term.

### Yangon Office Rent

City-wide	Q1 2018	Q2 2018	QoQ Change	Q2 2019F	YoY Change
USD/SQ M/MONTH	43.4	42.9	1.0%	40.5	-5.7%

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In order to attract more tenants, Colliers recommends landlords be more flexible in giving considerations in the contracts. Appropriate grace periods for tenants' fit outs, open negotiations in payment terms, and being more considerate during rental review periods would be major considerations that could push prospective tenants to choose one building over another.

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