Quarterly Review

YANGON | SERVICED APARTMENT

Q2 2018

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Weak supply pipeline in the near term

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For the past three quarters, no new projects were introduced. However, a slight uptick in stock was recorded. This was mainly driven by renovations and expansion done by the existing serviced residences. As a result, both the average occupancy and rental rates increased in Q2 2018. Going forward, while future supply remains skewed towards the upscale segment, we recommend developers focus more on the underserved lower tier category by providing international quality limited-service or non-serviced apartments.

Forecast at a glance

Demand

We expect strong future demand for limited-service apartments that provide fewer facilities but are still considered good-quality accommodation.

Supply

Yangon's future serviced apartment room stock should remain limited until Q4 2018. However, Colliers expects the total supply to double in the next three years.

Occupancy Rate

The citywide occupancy rate settled at 83.7%, up by 2.7% QOQ. We project occupancy to hover between 80% and 90% following the influx of new stock slated for completion between 2019 and 2021.

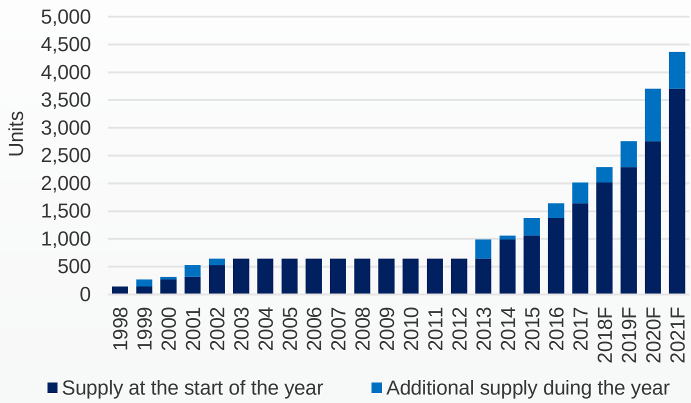
Rent

Modest increases were recorded for one-bedroom, two-bedroom, and penthouse configurations, ranging between 1% and 3% QOQ. We anticipate rental rates to settle at competitive levels with substantial supply in the coming years.

Strong prospects for mid-tier projects remain unrealised

No new serviced apartment projects were completed in the past three quarters. Since Q4 2017, the total supply has been unchanged at more than 2,000 rooms. Due to the limited construction progress observed, some developments that were scheduled to be unveiled during H1 2018 were pushed further back to an unspecified period. This leaves Lotte Serviced Apartment and Northern Inya Serviced Apartment as the latest completed projects, together with the expansions and renovations of existing developments like Clover Suite Royal Lake, SOHO Diamond, and Sakura Residences 1. Presently, the bulk of total supply is still found in the Inner City Area (75%), while the rest is positioned in the Outer City Area (25%). The supply share in the Outer City area improved significantly in H2 2017 following the completion of Lotte Serviced Apartments which represents roughly 16% of the total current stock. Meanwhile, the future introduction of Sedona Suites from Junction City means a return of supply in Downtown. Other prospective serviced apartments are also likely in the planned redevelopment of the 60-acre railway station project. However, the development progress of these projects Downtown appears to be sluggish and is only probable in the long term.

Yangon Serviced Apartment Stock



Source: Colliers International Myanmar

Over the course of two decades, the aggregate supply grew at a compounded annual growth rate of 15% and is scheduled to escalate to an annual growth rate of 16% in the next three years. In fact, around 11 projects are scheduled to be completed between 2018 and 2021, translating to more than 2,300 new rooms. However, upcoming developments for the remainder of the year are limited with only Kantharyar Serviced Residences and the extension of Clover Suite Royal Lake set to be completed, collectively representing more than 220 rooms.

While the serviced apartment market is in the process of taking shape in Yangon, Colliers has observed that both existing and future stock remain significantly lower than in Myanmar's neighbouring ASEAN countries. In fact, Yangon's current and future stock is much lower than neighbouring Bangkok's , cumulative stock of almost 20,000 units, despite having similar populations. In the next three years, the market should witness additional further supply as developers rush to accommodate the increasing market demand. However, lower-tier developments are likely to be preferred by tenants with price remaining a key consideration for most expatriates.

The entry of foreign investments and growth of local businesses have led to a rise in expatriates over the past five years. While this has encouraged strong rental activity in the residential market, many firms still face constraints, given the limited choice of decent quality apartments. While rental levels have recently rebalanced, prices associated with most existing serviced residences are still perceived to be expensive. Likewise, the recent years have seen the emergence of lower-tier but decent quality serviced apartments. The initiative has arisen as developers attempt to address the underserved demand due to the entry of mid-level foreign professionals. However, the supply remains meagre with only a handful of such developments available. The number of low to mid-tier serviced apartments represents only 30% of the total supply. Colliers advises developers to reposition their product line to take advantage of the untapped demand from single expatriates looking for more limited serviced apartment offerings. Our recommendation mirrors higher competition expected with total stock set to double in the next three years. Hence, it is reasonable that outdated developments should start upgrading and updating in-room amenities with focus on design efficiency and modern functionality. Exterior facelifts as well as refurbishments to common areas and facilities will likely also help reinforce the marketability of these properties.

Meagre increases in occupancy observed

Across the city, the average occupancy rate has increased to just below 84%. We anticipate a further upward movement in the second half of 2018 given the limited supply pipeline. For 2019, a decrease is likely temporary as demand prospects look positive. However, the trend should be more pronounced across lower-tier but modern serviced apartments. In fact, we see a flight to quality, evident from the declining performance across older and poorly maintained serviced apartments.

Many tenants are veering away from these older serviced apartments, moving into newer projects which despite being smaller in scale and equipped with basic facilities are functional and offer modern comforts. In fact, a number of new mid-tier developments managed to reach full occupancy in Q2 2018 given their smaller units coupled with the contemporary services and offerings preferred by many expatriates. Colliers continues to urge developers to take particular interest in building more limited or mid-tier serviced apartments that offer smaller sized units such as studio and one-bedroom units offered at competitive rates.

Yangon Serviced Apartment Average Occupancy Rate

Q2 2018	Downtown	Inner City	Outer City	Citywide	QOQ
Occupancy	N/A	87%	73%	84%	3%

Source: Colliers International Myanmar

Consequently, the market witnessed modest upturns in rental rates hovering between 1% and 3% on one-bedroom, two-bedroom, and penthouse configurations on a quarterly basis. Although upscale developments have witnessed limited price movements, the anticipated rise in competition should exert downward pressure on rental levels in the next two to three years In the meantime, we expect overall rates to increase modestly for the remainder of the year, and to correct downwards from 2019-2020 as supply increases.

Yangon Serviced Apartment Average Rental Rates (USD/Unit Type/Month)

Citywide	Studio	1BR	2BR	3BR	4BR
Rental Rate	1,962.50	3,850.80	4,848.07	5,358.25	7,777.53

Source: Colliers International Myanmar

Overall, Colliers strongly believes that the government's key initiatives to liberalise various investment sectors bode well for the market. As of Q2 2018, serviced apartment requirements still come mostly from the Oil & Gas, IT & Telecommunications, and FMCG sectors, as well as other MNCs. 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. Furthermore, the government's promulgation of new policies to encourage foreign investment should propel expatriate housing demand over time.

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