

# Economic Liberalisation, Key to Unlocking Growth Potential

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**The long-term market prospects are promising as the government rolls out new economic policies that could further liberalise the market. As of Q2 2017, Yangon's annual net take-up rate continued to trend constantly upwards and Colliers' projection seems on track with more than 80,000 sq m (860,000 sq ft) for absorption by the end of 2017.**

## Forecast at a glance



### Demand

With the continuous entry of better standard office buildings, flight-to-quality will persist and movements away from informal office space will become more pronounced.



### Supply

The total office stock declined marginally following the closure of FMI Centre. Nonetheless, a strong pipeline could lead the citywide stock to double over the next three to four years.



### Occupancy rate

The occupancy rate remained generally stable but is set to improve following recently signed lease contracts from various tenants.



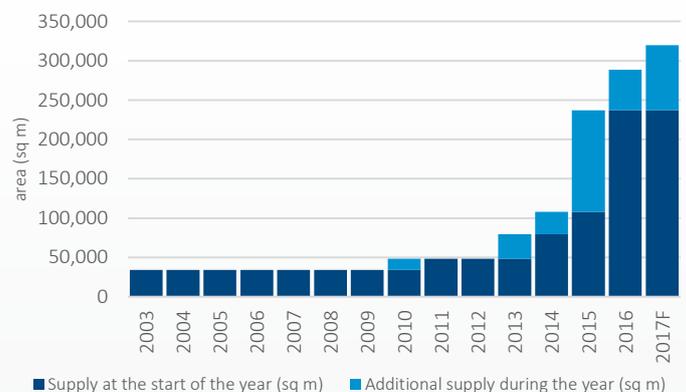
### Rent

Rental rates are likely to correct further downward given the sizeable future supply. A competitive rental environment will continually fuel demand in the near term.

## Downtown reinforces CBD status

Yangon's total office supply witnessed a slight reduction in Q2 2017 following the closure of FMI Centre. Considered one of the earliest offices in Downtown, the building will be demolished to make way for the future mixed-use development YOMA Central. Despite the marginal decline for the quarter, the growth in annual stock was substantial at 84% YoY. Still, in the remainder of the year, some 40,000 sq m (430,400 sq ft) of leasable space is slated for completion. This space includes new developments located in the clustered vicinities of Kamaryut and Sanchaung Townships, namely Red Hill Mix-Use Tower by Naing Group, Time City No. 3 Office by Crown Advanced Construction Co., Ltd. and Crystal Tower by Shwe Taung Development Co., Ltd. Construction progress is on track in most of these projects, likely driving the total stock to increase by 28% by the end of 2017.

### Yangon Office Supply Stock (GLA)



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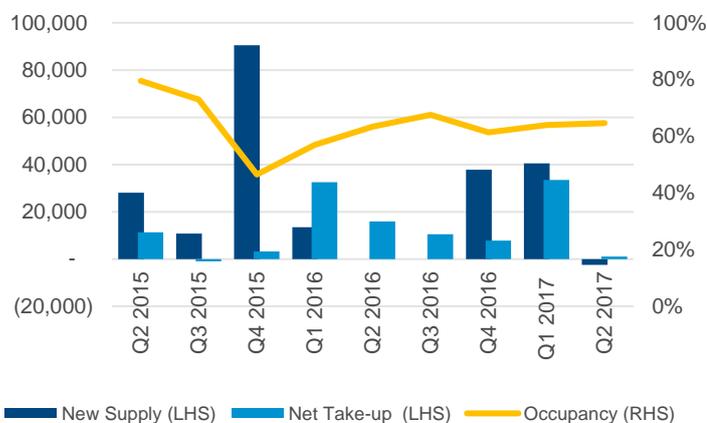
Meanwhile, Downtown led the substantial rise in office space during the first half of the year, now representing 40% of the citywide stock, almost on a par with the Inner City Zone. This resulted from the completion of both Botathaung Office Park and Junction City Office Tower, collectively at 40,000 sq m (430,400 sq ft) of leasable space. The sizeable new developments in Downtown, reinforced with the upcoming YOMA Central, as well as the planned redevelopment of the 60-acre railway station

plot, indicate that this area will remain as the city's key central business district in the long run.

## Long-term prospects remain positive

Supply is set to increase constantly over the next five years: we predict more than 270,000 sq m (2.91 million sq ft) of new leasable space. Developers continue to count on the long-term demand prospects especially with the new investment law eventually coming to fruition. While the government's new economic policies tend to be sluggish, overall it sets an encouraging investment tone that could further liberalise the market and consequently unlock vast market potential. This is likely to happen in the near to medium term for the manufacturing, banking and finance, and insurance sectors, among others.

### Yangon Office Net Take-up



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In the meantime, demand appeared generally stable in Q2 2017 with both occupancy and net take-up rates increasing by marginal levels. The occupancy rate grew by 0.6% QoQ, and 1.3% YoY. However, we expect the demand to improve significantly in Q3 2017 as a result of the recent leasing commitments signed by various tenants. Given this, Colliers' projection for the full year remains on track with the annual net take-up rate likely to exceed 80,000 sq m (860,000 sq ft) by the end of 2017.

## Flight-to-quality will persist

The anticipated entry of major foreign occupiers in the future means that demand for quality office space is likely to become more pronounced. Over the last two years, the market has witnessed a flight-to-quality especially with more modern office buildings having completed. In fact, we expect a healthier pipeline of potentially better quality projects, starting with Crystal Tower, Time City Office Tower No. 3, and Kantharyar Office Bldg. in the next twelve months.

Colliers sees that Yangon may not necessarily require a considerable amount of premium grade offices at present, and encourages developers to focus instead on improving building designs that are of international standards and fit the current market needs. The latest figures show that the city continues to offer one of the highest prime rental rates in the region (almost on a par with Singapore) and above most tenants' requirements.

### Yangon Office Rental Rate

City-wide	Q1 2012	Q2 2017	QoQ Change	Q2 2018F	YoY Change
USD/ SQ M / MONTH	45.81	45.85	0.08%	41.12	-10.3%

Nonetheless, with more office developments coming online, a correction in rental rates is likely and should create an impetus for potentially large-scale businesses to scale up operations, as well as small and medium sized tenants to relocate to dedicated office buildings. In fact, while the citywide rate remained generally stable QoQ at USD45 per sq m per month, the rate has now become more competitive, having dropped by 15% YoY.

Overall the office market should achieve further robust growth in the long term albeit at a moderating rate. Colliers' outlook remains positive amid further liberalisation of the economy. Yangon's office market is still undersupplied with under 330,000 sq m (3.55 million sq ft) of stock, and remains one of the smallest in SE Asia, giving extensive opportunity to grow from its current nascent phase.

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