

## Upward Trending Demand amid Stabilised Rents

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**Demand for office space has improved over each of the last five quarters as rents have stabilised at competitive levels. As of Q3 2017, the average occupancy rate reached more than 70%, a level last seen in 2015. Looking forward, economic reforms such as the new Myanmar Investment Law and an opening-up of the insurance sector will further facilitate inward investment. While this bodes well for the office market, Colliers continues to advise developers to introduce international standard projects at reasonable rental rates.**

### Forecast at a glance



#### Demand

We foresee demand to shift continually towards international standard developments. Expect movements from informal office spaces to persist.



#### Supply

By end-2017, we expect the office stock to increase by 22% YOY. Additionally, there are more than 270,000 sq m of leasable space in the pipeline, slated for completion in the next two to three years.



#### Occupancy rate

The citywide occupancy rate continued to rise, breaching the 70% mark. The rate is anticipated to improve in 2018 but is likely to head downwards in 2019 given sizeable new stock.



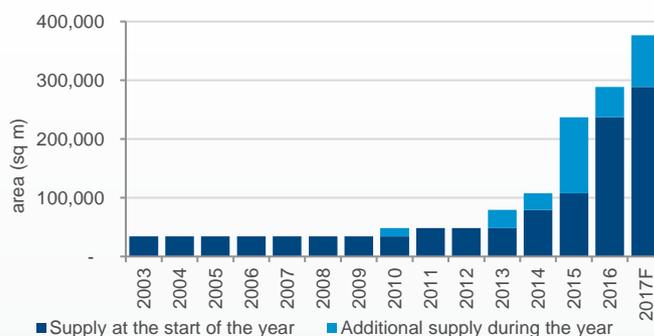
#### Rent

We anticipate prime rents to hover between USD40 and 50 per sq m per month, at least in the next six months. While the citywide rate may witness further correction, albeit at modest levels, in the next two years.

## Future Supply Building Up In the Inner City Zone

As of Q3 2017, Yangon's total office supply is unchanged QOQ at more than 320,000 sq m (3.44 million sq ft) of leasable space. The number is, however, up by 30% on an annual basis. Junction City Office in Downtown remains the latest development which was completed in Q1 2017. With more than 26,000 sq m (280,000 sq ft) of additional space slated in the remainder of the year, Colliers estimates the total stock for 2017 to exceed 350,000 sq m (3.78 million sq ft). These additional projects include Pye Nyein Thun Tower (Pyi Nyein Thu Construction) in Mayangone Township, Red Hill Mixed-use Tower (Naing Group) in Sanchaung, Crystal Tower (Shwe Taung Development Co., Ltd.) and Regent Office (Ever Best Hotel & Resorts Co., Ltd) both in Kamaryut Township. All these developments are likely to proceed to completion next succeeding month.

### Yangon Office Supply Stock (GLA)



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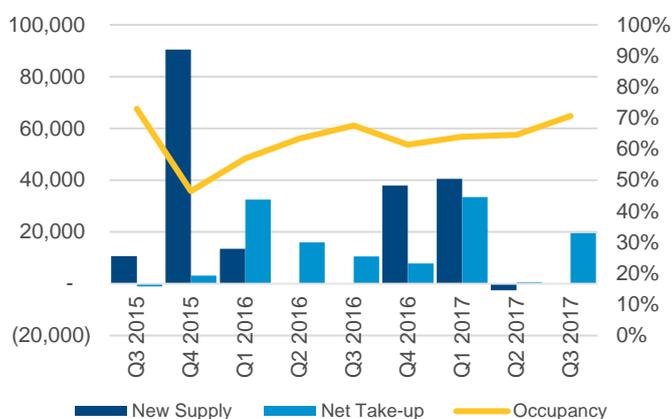
While office developments continue to build up in both the Outer and Inner City Zones, we expect Downtown to have limited supply in the next two to three years. However, we anticipate sizeable stock in the future from the mixed-use development Yoma Central as well as the planned redevelopment of the 60-acre railway plot. This should reinforce Downtown as a key business district going forward. In the meantime, the Inner City Zone could also be well positioned as an alternative business district, represented by integrated developments such as Time City, Junction Square, Kantharyar Centre, Golden City, and HAGL Myanmar Centre, to name some. As access

remains one of the prime considerations for most tenants and given the worsening traffic condition, offices along major thoroughfares including Pyay and Kabar Aye Pagoda roads, are also attractive options. By 2019, Colliers expects the Inner City Zone to represent more than 60% of the total supply.

## Economic Reforms to Facilitate Growth in Long-term Demand

The government endeavours to further stimulate foreign investment, taking a concrete turn with the introduction of the Myanmar Investment Law. The statute provides for a more streamlined process likely to entice inbound investments and eventually propel office demand. Along with the existing business expansions and the eventual liberalisation of various investment sectors, the market should witness stronger long-term demand.

### Yangon Office Net Take-up



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Demand for office space has remained resilient despite the continuous rise in supply. In fact, given the competitive rental environment, the citywide occupancy rate has trended upwards over the last five quarters. As of Q3 2017, the rate breached the 70% mark, a level last seen in Q3 2015. The number is up by 6% QOQ and 3% YOY. The additional supply in Q4 2017 may create a downward pressure on the overall occupancy. However, Colliers' earlier prediction remains the same, i.e. for the annual net absorption to exceed 60,000 sq m (645,600 sq ft) for

2017, a similar level to 2016. Office space requirements may continually increase in the near future with potentially better macroeconomic prospects. This could begin with the liberalisation of the insurance sector as well as the ease in restrictions on the banking and finance industry. The manufacturing sector can similarly be a major occupier along with other multinational corporations seeking larger office floor plates. Colliers also expects a continuous entry of large multinational businesses. Although many of these will initially require smaller sizes of 200 to 300 sq m, the potential for expansion is significant in the medium term.

## Competitive Rents Encourage Flight to Quality

Movement towards better quality offices is now becoming more evident as rental rates stabilise at competitive levels. Newer office buildings are now offering lower rates which in turn have exerted downward pressure on older and lower quality developments. Since Q4 2016, the citywide rental rate has settled at USD45 per sq m per month. The fact that rate is significantly lower than in previous years has driven higher office take-up, especially for better quality developments; while movements from informal and lower-tier offices persist. The positive shift has also been facilitated by the removal of the rent escalation clauses in recent transactions. We expect rental levels to be stable for the next quarter but a limited downward correction is still likely in the next twelve months given sizeable additional supply. This trend may continue in the next two years with many untapped businesses still seeking more reasonable rent.

### Yangon Office Rental Rate

City-wide	Q2 2017	Q3 2017	QoQ Change	Q3 2018F	YoY Change
USD/SQ M / MONTH	45.81	45.21	-1.40%	41.12	-9.05%

Colliers advises landlords to continually adjust rents in line with their building quality. There remains strong demand for international quality projects offered at reasonable rental rates.

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