

Lower-tier modern developments gaining popularity

Tin Thandar Oo Analyst | Research & Advisory

Lower tier but modern projects are gaining more traction while movements from older and poorly maintained serviced apartments are becoming more apparent. In general, housing budgets remain a key consideration among many businesses and Colliers continuous to urge developers to veer away from upscale offerings, and rather focus on more smaller units but good quality products instead.

Forecast at a glance



Demand

Further economic liberalisation will pave the way for the entry of more foreign investments. Demand in turn is anticipated to be strong in the long term especially for smaller sized units.



Supply

Construction delays could result in to a dearth in new supply in 2018. While there are more than 10 projects in the pipeline, only a handful appear on track.



Occupancy rate

Occupancy levels are anticipated to become stronger across lower-tier but modern quality developments. These projects collectively reached more than 90% occupancy as of Q2 2017.



Rent

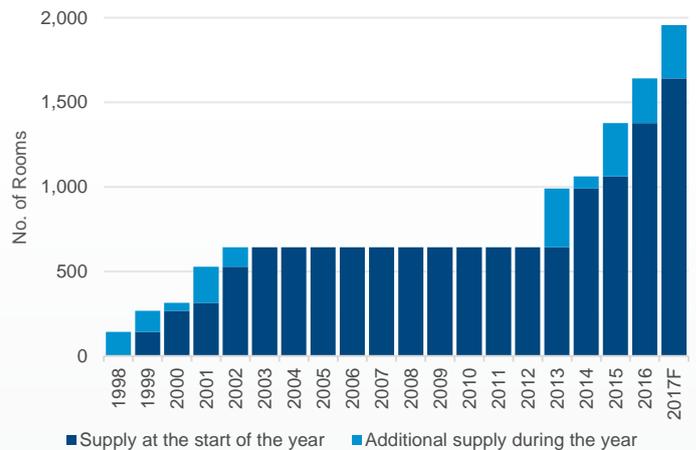
Rents for upscale developments remained generally stable QoQ. However, we expect downward adjustments in the next three years as competition tightens for this segment.



Construction delays to cause supply shortage in the near term

Yangon's total serviced apartment stock is unchanged at 1,640 units over the last two quarters. The number however is expected to grow by 15% YoY with the anticipated completion of Hotel Lotte and Serviced Apartment in Q3 2017. A Korean and Myanmar joint venture, the project is expected to be the largest hotel complex in Yangon with the serviced apartment component alone representing 315 rooms, higher than Sakura Residence 1 and 2 combined at more than 200 rooms.

Yangon Service Apartment Room Stock



Colliers International Myanmar

The pipeline in the medium term is especially weak, and possible construction delays could lead to an absence of new projects for the rest of 2018. While future developments are slowly building up, many however have shown limited progress with some being temporarily shelved. For a handful of projects, the completion schedule appears on track, likely to be delivered from 2019 throughout 2020. These may include Kantharyar Serviced Residences in Mingalar Taung Nyut Township, Junction City Sedona Suites in Pabedan Tonwhip, as well as The Loi and Somerset @ 68 Residence in Bahan Township. Some others planned in the long term are expected to be integrated in mixed-use developments such as Golden City, HAGL Myanmar Centre, Polo Club Asia Residence, and Inno City, to

name a few. Still many of the future developments are skewed towards the upper-scale category with product offerings mostly unsuited to the current demand.

Unprecedented demand for lower tier but better quality projects

Yangon Serviced Apartment Unit Type Configuration

Year	Studio	1BR	2BR	3BR	4BR
2015	4.5%	34.2%	30.3%	25.2%	5.8%
2016	4.9%	29.9%	28.2%	32.1%	4.9%
2017F	4.8%	33.7%	27.0%	30.3%	4.2%

Colliers International Myanmar

In general, the housing budgets remain a key consideration amongst majority of the businesses and Yangon's reputation for high rents associated with upscale developments mean majority of expatriates settling for alternative housing options typically of poor quality. This is in stark contrast to neighbouring city Bangkok where product offerings are widely varied and that good quality residences such as condominiums, serviced residences, and basic apartments come at reasonable prices. Even with the recent emergence of affordable but good quality serviced apartments in Yangon in the recent years, the number they represent appears limited being only 17% of the total supply, and there is little evidence of probable increase in the near to medium term. Still, the majority of the future developments consists of sizeable share of two and three bedroom units despite that demand mostly comes from singles and couples. Colliers urges 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 at competitive rates. In fact, many of the recently built lower-tier projects have begun adopting these configurations and are currently benefitting from robust demand. As of Q2 2017, these

developments collectively achieved an unprecedented 90% occupancy and is geared to continually rise given the dearth in immediate new supply. On the other hand, flight to quality is apparent, evident with the substantial decline in occupancy across older and poorly maintained serviced apartments. Many tenants are veering away from these, moving into newer projects which despite being smaller in scale and equipped with basic facilities, are functional and offer modern comforts.

Yangon Serviced Apartment Occupancy Rate

City-wide	Q1 2017	Q2 2017	QoQ Change	Q2 2018F	YoY Change
Occupancy	87.72%	87.20%	-0.52%	91.3%	4.1%

Colliers International Myanmar

Across the city, the average occupancy rate has remained stable QoQ at the sub-87% level. We anticipate a temporary decline over the next quarter upon completion of Hotel Lotte & Serviced Apartments. Our medium term forecast remains positive particularly in 2018 given the probable absence of new projects and the continuous rise in expatriate demand. The trend should be more pronounced across lower tier but modern serviced apartments.

Yangon Serviced Apartment Average Rental Rate per Unit per Month (USD)

City-wide	Studio	1BR	2BR	3BR	4BR
Rental Rate	2,190	3,465	4,865	5,520	7,580

Colliers International Myanmar

Rental rates are starting to become more competitive having corrected downwards over the previous years. This trend follows the entry of more affordable developments. Although, upscale developments have witnessed limited price movements, the anticipated rise in competition should exert further downward pressure on rental levels in the long term. In the meantime, we expect the overall rates to remain generally the same for the remainder of the year, and should increase modestly in the next 12 to 18 months.

For more information:

Karlo Pobre

Associate Director |
Research & Advisory
+95 (0) 979 573 3378
karlo.pobre@colliers.com

The Htet Oo

Assistant Manager |
Research & Advisory
+95 (0) 979 765 7777
thehtet.oo@colliers.com

Contributors:

Hsan Pyae

Assistant Analyst |
Research & Advisory

Saw Wanna Maung

Researcher |
Research & Advisory

Copyright © 2016 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



Accelerating success.