

Market Seeks Out Quality on a Budget

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Expatriates seek out international quality serviced apartments but are struggling to strike a balance between quality and affordability. With only a few projects that manage to fit the bill, Colliers sees strong opportunities for good quality but reasonably priced products. Development offerings with limited services also make good sense, tapping many businesses with modest housing budgets. We urge developers to address affordability by adding smaller-sized units, particularly studios and one-bedroom units, where competition from the condominium for rent market is severely lacking.

Forecast at a glance

Demand

We expect demand to remain robust in the long term. However, preference for lower tier but better quality projects will become more pronounced at least in the immediate future.

Supply

Supply in the pipeline is continually building up. More than 2,500 units are slated for completion in the span of three to four years. However, the stock remains skewed towards the upscale segment.

Occupancy Rate

Occupancy levels should remain healthy at least in the near term. Some recently completed condominiums of international quality may indirectly take some market share.

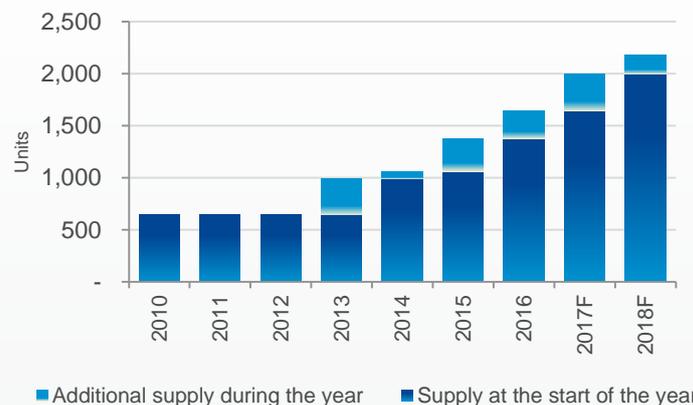
Rent

Lease rates remained generally stable in the past year. We expect rents to become more competitive as supply becomes substantial in 2019 and 2020.

Upper-scale developments continue to dominate

The completion of Lotte Serviced Apartments in Q3 2017 led supply to rise by a substantial 19% QOQ, a new record high since 2013. On an annual basis, the number is also up by 21% driving the total stock to exceed more than 1,900 units. Still, the majority of these projects are considered upscale, representing close to 70% of the total. Among these, Shangri-La Serviced Residences and Lotte Serviced Apartments are classified as premium standard. In fact, the latter's opening defined a new benchmark for high quality offering in Yangon. Lotte Serviced Apartment features the highest number of amenities and facilities across all serviced apartments; and is reinforced with superior exterior building designs as well as modern fixtures and furniture. Other upcoming projects are likely to be of similar quality, such as Sedona Suites (Junction City) and Somerset Kabar Aye Yangon in Pabedan and Bahan townships, respectively.

Yangon Serviced Apartment Room Stock



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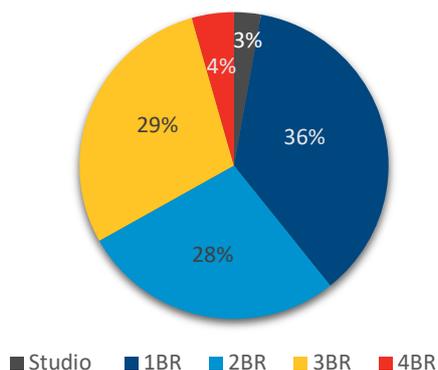
By 2020, Colliers also expects the Inner City Zone to represent the majority of the supply being 67% of the total completed stock. Bahan and Yankin townships remain popular locations, with the majority of these projects still positioned as upscale. However, while demand for upscale developments appears currently healthy, the substantial rise in its stock may lead to a considerable surplus starting in 2019 and through 2020.



At present, Colliers still sees a vastly untapped market for lower-tier but better-quality projects. We strongly recommend developers to introduce alternative options instead which cater to most businesses' modest budgets. These projects can be designed with basic but functional facilities, but still offer modern comforts.

Limited supply of smaller units despite high demand

Yangon Serviced Apartment Unit Type Configuration



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Besides quality and affordability, demand for studio and one-bedroom units remains underserved. In fact, the overall unit mix among comparable cities in the region favours smaller sizes, preferred by many single and couple expatriates. While there is now a gradual supply shift towards one-bedroom units in Yangon, both two and three bedrooms still represent a sizeable share of the total market. On the other hand, the supply of studio units appears meagre at 3%. The number is in fact substantially lower than nearby Bangkok's 29%. As observed in most Yangon serviced apartments, this unit type is generally almost fully occupied, while the one and the two bedrooms are leased faster than those with more bedrooms. In the meantime, the citywide occupancy has remained generally healthy over the past quarters. However, as expected a drop occurred in Q3 2017 following the completion of Lotte Serviced Apartment. The decline

was about 10% QOQ and was comparable to the decline that occurred when both SOHO Diamond and Shangri-La Residences collectively introduced more than 300 units in Q3 2014.

Yangon Serviced Apartment Occupancy Rate

City Wide	Q2 2017	Q3 2017	QOQ Change	Q3 2018	YOY Change
Occupancy	87.2%	77.9%	-9.3%	89.3%	11.4%

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Looking forward, we predict that the occupancy rate will gradually increase as probable delays in construction mean an absence of new supply in the next two years. On the other hand, the gradual rise of relatively good quality condominiums may exert downward pressure on occupancy, albeit to a limited extent. The majority of these condominiums remain unsuited to current demand, with units geared towards the larger unit sizes. Additionally, good quality building upkeep and property management continue to be generally problematic.

Rents to improve modestly

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

City-wide	Studio	1BR	2BR	3BR	4BR
Rental Rate	2,330	3,900	4,845	5,580	7,485

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Lotte Serviced Apartment's mostly one-bedroom units drove the average rent (for the same unit type) to increase by a 13% QOQ in Q3. In contrast, average rent for four-bedrooms declined, albeit marginally. We expect rental levels to improve modestly in 2018, but competitive rates are likely in 2019 onwards as supply becomes substantial. Furthermore, we recommend older upscale developments to start adjusting their offers, given the entry of more modern developments, or to undertake major refurbishments and renovations in order to compete more effectively.

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