

SPS MARKET SNAPSHOT

Half 1 2017 Review



Slade Property
SERVICES

Slade Property Services Myanmar

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OVERVIEW

Just over one year on from the transfer of power from the USDP to the NLD, Myanmar is finally beginning to see the new government implement some notable changes. Although progress has been far slower than many had hoped for, the NLD was given a critical first year report card by most elements of the press recently.

Economy and business

After many months of disappointing financial reports and forecasts, January saw the World Bank release a more positive forecast, predicting that Myanmar's economy would grow by an average of 7.1% per annum over the next three years. This is an increase from 2016/17's growth rate of approximately 6.5%. The World Bank believes this was due to increased investment in infrastructure and hospitality. The Asian Development Bank is more bullish, believing that this fiscal year will see 7.7% per annum growth, and 8% growth in 2018.

The next few years will also see a recovery from the effects of Cyclone Komen, which caused severe damage to the economy in 2015 and 2016.

However some experts believe that these estimates are overly optimistic, and that slowing growth in China, which accounts for over 60% of Myanmar's imports and exports and is the largest foreign investor, is likely to have an impact on Myanmar's economic growth. In addition, inflation remains high at around 7% year-on-year (although this is considerably lower than the peak of 11% in 2015). Additionally, the government deficit (as a proportion of GDP) continues to increase.

On a brighter note, the first half of 2017 has seen a continuation of Myanmar's business liberalisation. In January, Viettel Group was granted the country's fourth telecoms licence, and the release of the new Investment Law has opened up several sectors to foreign investment, including retail, petroleum, health and light industry. The government is committed to encouraging DFI that will increase employment. In total, the list of 92 business activities requiring a local partner has been reduced to just 22. In addition, a new streamlined 'MIC Endorsement' process for smaller investors who wish to take advantage of the ability to

secure longer lease terms and tax incentives is now available. However, the tax incentives granted by the previous MIC permit system is now only granted automatically in a handful of cases. All other investors will need to apply individually for tax incentives, which will be assessed on a case by case basis.

In another move towards liberalisation, it is believed that foreign insurance companies are soon to receive their licenses to operate, and that foreign banks may soon follow.

Politics

2017 has not been an easy year for Daw Aung San Suu Kyi and her party. Most notably, they have received a significant amount of negative press internationally for their handling of the violence in Rakhine State in late 2016. The UN has even sanctioned an official probe into the matter. Early 2017 also saw the assassination of one of the NLD's key legal advisors, U Ko Ni, the continuation of violence in the border regions, and some key losses for the NLD at by-elections.

However the general consensus in Myanmar appears to be that the NLD should be given time to make progress, and that the party will ultimately improve human rights and living conditions for its people if given space to do so.

Legal and planning issues

As mentioned above, the Investment Law by-laws were published in April 2017, clarifying DICA's stance on which business activities are to be encouraged and restricted under the new regime. On the whole the law is a positive one, which is likely to speed up the investment process, and allow foreign investment in many sectors previously restricted or limited.

Unfortunately, other laws have not progressed as rapidly. There is still no sign of the Condominium Law's by-laws being published and bringing it into effect and the Companies Act is also awaiting completion. Finally, a Yangon Zoning Plan is yet to materialise.

A proposed law which would have severely restricted the freedoms and movement of foreign workers in Myanmar (including introducing a requirement to seek prior permission for all journeys away from ones home for more than 24 hours) was rejected by the

parliament, and has been sent for redrafting, following intense lobbying by ambassadors and foreign business groups.

OFFICE MARKET

Supply and Demand

The most notable addition to office stock in the first 6 months of 2017 was the opening of Junction City, in Downtown Yangon. This has added an additional 34,000 sq m (Net lettable area) to the existing 280,000 sq m of office space. More office space is set to open in the second half of this year, although a large amount of this is office space for sale to owner-occupiers rather than available for lease.

As evidenced in the chart below, the trend of increasing supply is likely to continue over the next 2-3 years, and is likely to drive occupancy levels and rents downwards.

The new Myanmar Investment Law has been designed streamline the process for international companies entering the Myanmar market. This should lead to more potential office tenants (thus increasing demand). Whilst Myanmar retains its onerous rating as one of the most difficult places in the world in which to undertake business activity, we do not foresee a situation where demand matches supply for many years to come.

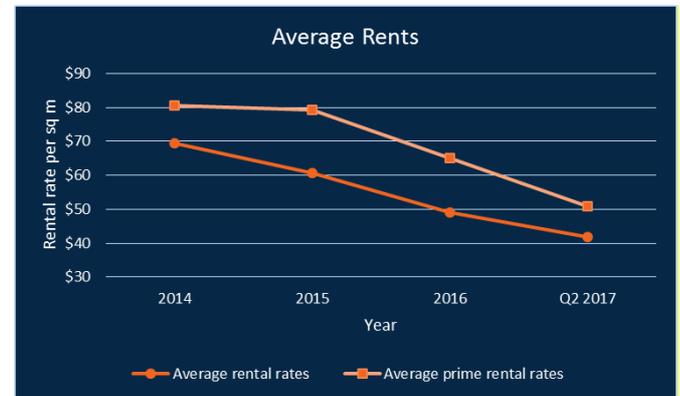


Occupancy

Occupancy rates have improved marginally since December 2016, now sitting at just above 60%. However this is still considerably lower than the average occupancy levels in 2014, and shows that demand is not high enough to compensate for the large

increase in stock over the last few years. Even prime, Grade A, stock is struggling to find sufficient tenants.

Rents



The downward trend in rents continued during the first half of 2017, with prime rents dropping at a faster rate than across the city as a whole. Average prime rents (for the city's best quality office stock) now sits in the vicinity \$50 to \$55 per sq m per month (\$4.73 per sq ft).

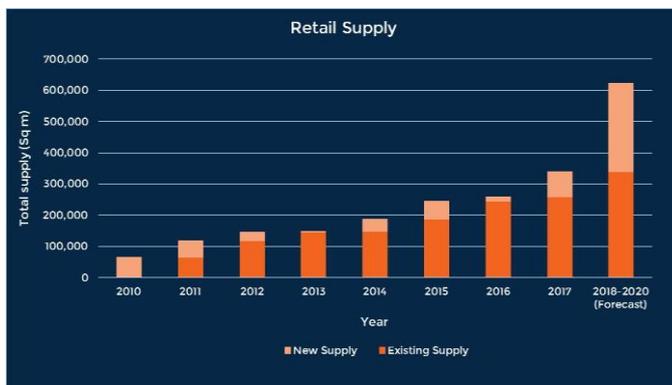
Outlook

With occupancy rates across Yangon still struggling to climb above 60% and with more office stock under construction, an improvement in rents is unlikely without a significant increase in demand. Until the legal and regulatory environment improves, attracting more foreign tenants, this remains unlikely. This downward realignment of rents brings Yangon's office rents closer in line with those in surrounding markets such as Bangkok, Singapore and Kuala Lumpur, which will make Yangon a more attractive place to do business.

RETAIL MARKET

As detailed in our previous snapshot, the retail market combines high demand with low supply, resulting in high occupancy rates and increasing rental levels. The sustainability of this situation will be dependent upon the strength of consumer and retailer confidence in the economy.

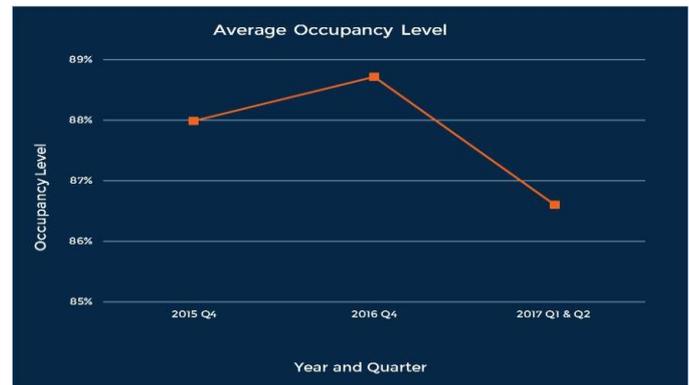
Supply and Demand



The big news story for Yangon's retail sector in H1 2017 has been the opening of Junction City in late March, adding over 53,000 sq m to Yangon's existing retail stock. Most stores within the mall have now completed their fit-outs and the project has seen record numbers of visitors, with some stores have reported revenues of as much as \$20,000 per day!

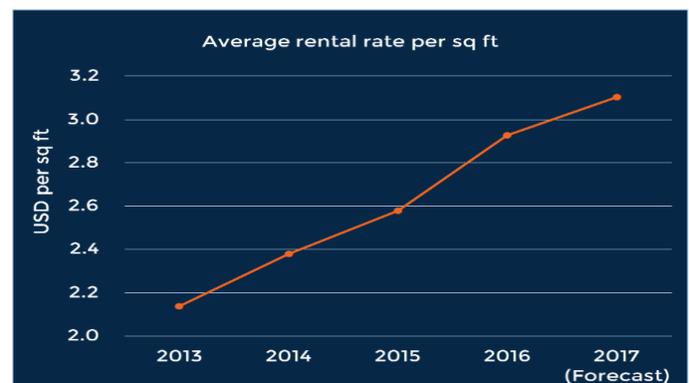
Unexpectedly the opening of The St. John Mall (City Mall) in the first week of August 2017, has seen occupancy levels at 70% with a 27,440sqm increased in supply. Again, although not all stores within the mall have completed their fit-outs, the project has seen record numbers of visitors.

Despite these new openings, supply continues to outweigh demand, and occupancy levels remain at just under 90% for all modern-style retail space across the city (and 100% in the city's most recent and popular schemes). However, completion of several other new projects such as Golden Link, Junction Square Extension (2 or 3 Levels of the Crystal Tower and Residence), Yadanar Mall (Time City) will add to this year's tally, while an even greater amount is currently under construction, set for completion in 2018. It will be interesting to see if this will dampen occupancy rates.



Rents

At the time of our last snapshot, rents in existing prime and tier two retail locations were sitting at about \$31.22 per sqm (\$2.90 per sq ft) per month. These have now climbed to approximately \$33.48 per sqm (\$3.11 per sq ft) per month. As always, the prime developments in town, such as Myanmar Plaza and Junction City have achieved rents significantly higher than this average.



Outlook

Given the revenue being generated by some retailers at the newer malls, it seems likely that prime retail property will continue to justify high rents for the foreseeable future. It remains to be seen if the upcoming influx of supply will cause rents to drop in the mid to long-term.

INDUSTRIAL MARKET

With a definite shortage of quality office/warehouses available for lease, and a large and constant supply of international tenants entering the market, the industrial market offers huge potential and growth. The light-manufacturing sector is set to lead the way in FDI in 2017/8. Sub sectors holding promise include:

Textiles and garments, foodstuff packaging, processing and distribution, electric and electronic products, machinery and parts, plastics and leather, packaging, pharmaceutical products, logistics, and freight forwarders, major global food distributors and cold storage/self-storage.

There are 20 industrial zones and 3 Special Economic zones scattered around Yangon. Land values in the most sought after industrial zones have risen sharply over the past two years.



Rentals for new quality office/warehouses range between \$4 and \$7.5 per sqm per month. This rental figure is based on the location of the industrial zone and the type of fit out required.

Power and the quality of the road network are by far the biggest issues facing industrial users.

The use of high capacity electricity generators and solar ceiling panels are being considered by developers as a way to mitigate the risk of power outages.

The opportunity exists for international warehouse developers to fill the current gap in the market by

developing high-quality warehouses and factories specifically aimed at international tenants.

Myanmar's minimum wage is the lowest in ASEAN at about \$3 per day. Many observers predict that Myanmar is set to become Asia's final production frontier following rising labour costs in China and the wider ASEAN region.

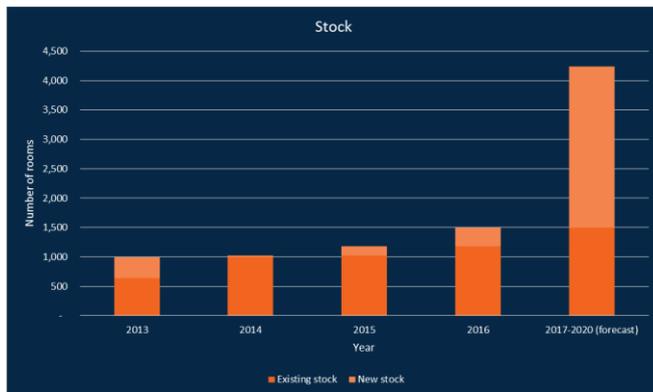
Yangon Industrial Zones

YANGON INDUSTRIAL ZONE INDEX



SERVICED APARTMENT MARKET

Supply and Demand



Until now, the growth of serviced apartment stock has been slow. This equates to only 1,500 units across the city. This has meant that supply is vastly outweighed by demand, particularly from foreign companies renting homes for their foreign employees.

As a result of this imbalance, rents and occupancy rates have remained high, making serviced apartments a viable property investment. Looking at the planned future stock, it appears that developers have realised this niche and most notable developments due for completion in the next three years are set to contain a number of serviced apartments. If all of these projects proceed, we will see the number of rooms almost triple in just a few years. Whether demand will be able to keep up with this influx of new supply remains to be seen.

Rental levels and occupancy

For now, rents and occupancy levels in serviced apartments remain high.



As can be seen from the above chart, all but two schemes have over 80% occupancy, with many at 100%. The average is 90%, with MiCasa currently operating at only 50% due to the ongoing refurbishment. With MiCasa excluded, the average sits at 93%.

After a reduction in rentals between Q2 2015 and Q2 2016, rents rose again in 2017, with particular rises in rents for the larger units. This is as a result of more and more expat families arriving as businesses become more established, and a lack of larger units to house them.



Outlook

Given the vast amount of stock in the pipeline, some of it set for completion in 2017 or 2018, it seems unlikely that rental levels and occupancy rates will stay as high as current levels. A realignment is likely to occur over the next 2-3 years, bringing rents in line with other cities in the Asia Pacific region.

LUXURY CONDOMINIUM MARKET

With the Condominium Law still not ratified by the President, and lacking published regulations, the luxury residential market continues to progress slowly, with sales at new projects still low.

On a more positive note, the past six months have seen several projects make significant progress in construction, after 2016's High Rise Review held many back.

Supply and Demand

Demand and supply levels have changed little in recent months. Supply has not increased, as mortgages are still difficult to secure, and foreigners are still barred from owning property. Demand has also not increased significantly, as the only notable launch was The Central in Q2 2017, itself a relaunch of the previously-cancelled Dagon City project.

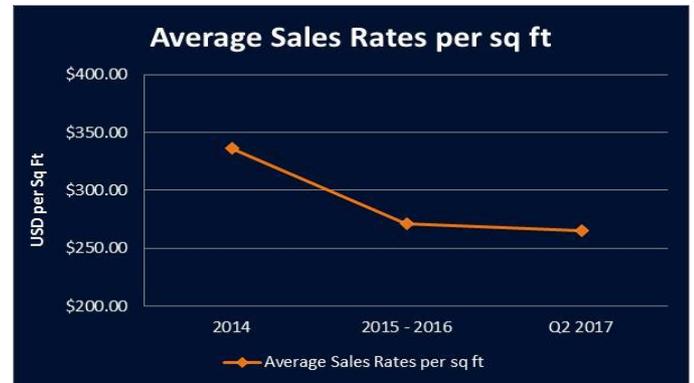
The next six months are set to see the completion of Crystal Residence, Paragon Residence and Golden City (some residential blocks), but the majority of projects currently for sale will complete in 2018 or 2019.



Sale prices

Asking prices remain high, despite the lack of sales. However, a slight drop in average asking prices for new projects has been noted. According to our latest research data, the lowest average price is

approximately \$265 per sq ft and the highest average price is approximately \$ 336 per sq ft in notable projects.



Outlook

After a year with very little construction, it is positive to witness many schemes rising at a quicker rate. Royal Sayarsan Condo and 68 Residence, for example, have made noticeable progress after months of delays. This, and the completion of a few projects in H2 2017, should inject some much-needed confidence into the condominium market.

That said, it is hard to be confident about demand increasing any time soon, unless foreigners are allowed to buy properties, or loans become easier to obtain, opening up the potential target market to include ordinary Myanmar citizens.

With a number of economic and regulatory liberalisations in the pipeline, however, it may not be too many years until these changes become a reality.

ABOUT SLADE PROPERTY SERVICES

SPS, based in Yangon, Myanmar is a professional real estate consultancy that has been in operation since July 2013. SPS is registered with regulated by and the Royal Institution of Chartered Surveyors (RICS), providing property consultancy, valuation, advisory, asset management, leasing and sales services. Not only does SPS have an excellent track record of advising clients both in Myanmar and from across the world, but it is the only company in Myanmar that has had multiple employees who are fully qualified RICS members and registered valuers. All staff members receive training based on RICS principles, thus improving the quality of SPS's service and the level of diligence provided to clients.

Every day, SPS transacts and provides advice upon real estate assets. Through our active participation in local markets, we benefit from data on current rents, prices and market information. This insight is essential particularly where there is limited transparency in the market, such as Myanmar. By engaging our services, you are accessing the experience of our agency and research teams.

SPS has recently been awarded the Best Real Estate Consultant in Myanmar with a 5-star award at the Asia Pacific Property Awards 2017-2018, one of the most prestigious industry events in the region. Presented at The Marriott Marquis Queen's Park Bangkok on 25th – 26th May. Companies received awards for categories ranging across property development, real estate, interior design and architecture categories. Chosen from over 900 entries spread across the Asia Pacific region, Slade Property Services have proven themselves to be the very best in the Myanmar property consultancy sector as a result of their impressive track record, involvement in the largest and most high-profile transactions in Myanmar and their continued growth.



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