Yearly Review

YANGON | INDUSTRIAL
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Colliers INTERNATIONAL

Accelerating success.

Myanmar’s second industrial wave

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You can now find “Made in Myanmar” on a label of a Marks & Spencer suit sold in the UK. Four years ago, Coca-Cola was able to bottle its iconic beverage in Myanmar. The rigorous standards applied by multinationals are now being applied in Myanmar. Although the industrial and logistics market is still very much in its infancy, the situation has drastically improved over the past few years. One of the success stories of real estate in the country is this dramatic growth of the industrial and logistics sector. Far more is expected over the coming decades representing a vital component to the new economic growth story taking shape in Myanmar.

Historical Background

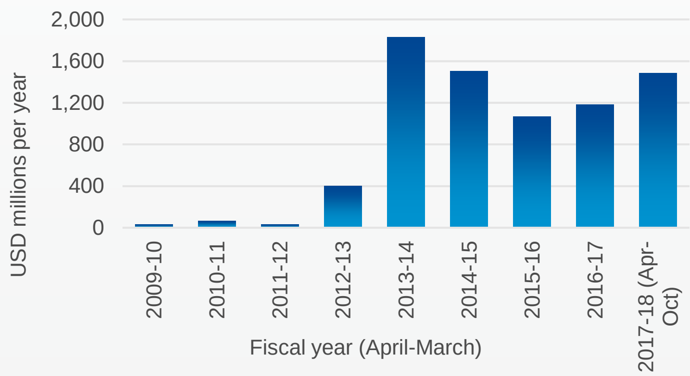
The development of the industrial estate sector in Myanmar had its origins after the official transformation in 1988 from a socialist development model dominated by state owned enterprises to a market orientated economy. At the beginning of the 1990’s the country aimed to emulate the success of its neighbours such as Thailand and Indonesia in the form of rapid industrialisation. The government embarked on developing industrial estates around the country, but mostly focused in Yangon, to cater for this.

After a few years of initial strong growth in the garment and food processing industries, this promising trend ground to a halt after the imposition of US sanctions in the early 2000’s and then further hampered by political and economic woes over the rest of the decade. As a result, the industrial zones went into decline and neglect and this remained mostly the status of the industrial estate market until 2015 when manufacturers and logistics companies reconsidered Myanmar again. This has triggered a resurgence of industrial estate activity that should continue and strengthen over the next decades.

Highlights

- Growing Foreign Direct Investment (FDI) in the manufacturing sector driving industrial estate demand
- Very poor quality industrial estates are the norm but Thilawa SEZ represents a welcome departure
- Insufficient transport infrastructure and electricity supply hamper future development
- Much industrial estate land remains unoccupied due to speculators
- Existing state owned and operated industrial estates remain in a state of neglect

Foreign Direct Investment Manufacturing in Myanmar

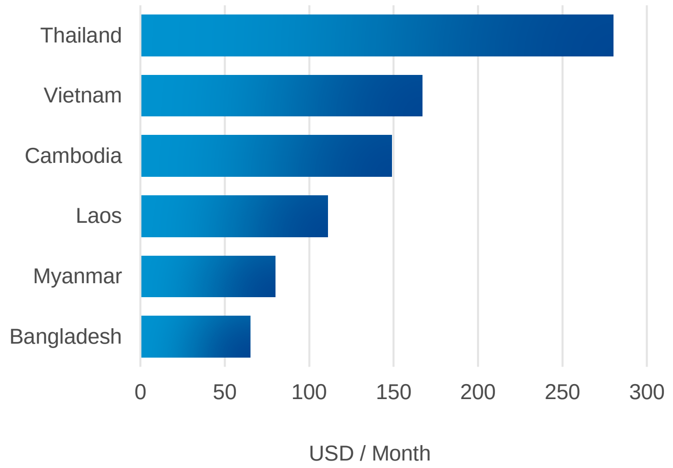


Directorate of Investment and Company Administration (DICA)

Foreign direct investment in manufacturing started to take off in 2012 after the opening up of the economy and the softening of US sanctions. While FDI declined after the initial impetus, there was an improvement in 2016-17 and even in the first seven months of the 2017-18 fiscal year investment surged and this promises to be the best year to date for Myanmar.

Nowadays demand for industrial land comes from many types of industry and a wide range of countries. A low of labour and the ending of US sanctions have prompted a return to Myanmar by the garment industry with rival countries like China and Vietnam today having higher labour costs. The geography and demographics of the country appeal to the Fast Moving Consumer Goods (FMCG) industry and logistics companies. In the absence of high-quality agricultural production, food companies resort to bottling and packaging; representing a form of proto-manufacturing allowing the localisation of product branding. With the expected improvement of the agricultural sector over the next ten years many FMCGs plan on having full manufacturing facilities in Myanmar for some products once they have access to consistent quality, quantity and regularity of local supply.

Minimum Wage in Selected Countries 2017

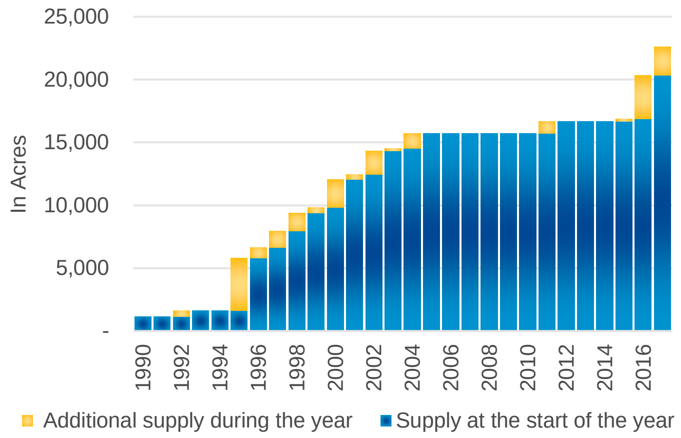


National Wages and Productivity Commission, Philippines

The first industrial estates starting appearing from 1990 in Myanmar but primarily focused on Yangon as well as Mandalay. Apart from one industrial estate in Yangon, the rest were developed by the government. Overall the infrastructure was and still remains poor and sometimes in an unappealing location. However, the majority of land plots were leased out (freehold ownership was not allowed) on the proviso that the tenants would build and operate a factory or warehouse.

The growth in supply in the industrial estate market continued into the nineties with significant supply being added from Hlaing Thar Yar and Dagon Seikkan. The garment industry was the key sector in manufacturing during the 1990's and early 2000's and was the second largest export sector behind oil and gas. The US market accounted for about 65% of the garments exported and the EU for a further significant portion. The Burmese Freedom and Democracy Act, passed in 2003, banned importation of products from Myanmar to the US which gravely affected the garments sector. This was further impeded by additional harmful tax measures and the growth of China and Bangladesh as cheap labour alternatives. The result was a shutting down of hundreds of factories and halted the development of industrial estates for the rest of the decade.

Myanmar Historical Industrial Estate Land Supply



Colliers International Myanmar

“Industrial Estates” in name only

While there are many differences between the various industrial estates around the country the common theme is of very poor quality in relation to South East Asia. The vast majority were developed by the state and even during the boom in the nineties the infrastructure was inadequate. Most had very poor internal roads, lack of sufficient electricity and non-existent wastewater treatment offered very limited incentives, were often not connected to main roads and had little in the way of industry clustering. This lack of competitive advantage meant many manufacturers opted for land outside the industrial zones. This is evident in Bago and Hmawbi to the north of Yangon with currently only around 15% of industrial enterprises in Myanmar located in industrial zones.

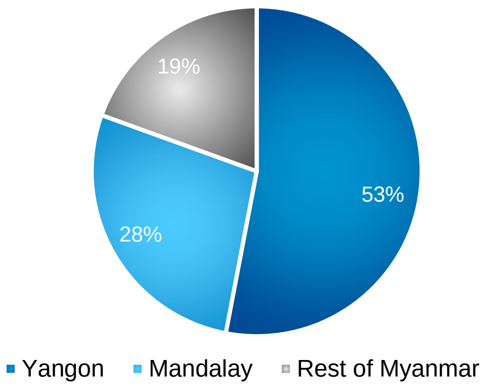
Some investors were interested in industrial estate land as a form of storage of wealth and even speculation. One exception to the general poor quality of the industrial estates was Mingalardon Industrial Park (MIP) which was a joint-venture between the state and Mitsui Co from Japan. This estate contained far better infrastructure and also the northern strategic location meant it was very popular for manufacturers.


Poor road infrastructure is evident at many industrial estates

The decline in the industrial sector starting from 2003 led to a further deterioration. Some large industrial areas nowadays amount to little more than agricultural land zoned for industrial. The management of most estates was almost non-existent to the point that little is known of the original investors. Today the legal picture is not clear as the long-term lease would only have been provided upon completion of a facility which in many cases never happened.

In the past few years Thilawa Special Economic Zone, a joint-venture between three Japanese companies, a consortium of Myanmar private companies and the Myanmar and Japanese governments is proving a success due to international standard infrastructure, clear and transparent lease process and access to the port. Thilawa SEZ has now set the standard for other future industrial estates around the country to emulate. If the existing state-owned estates are redeveloped with private sector involvement then this should reignite the industrial real estate market. However, the government has recently announced that 11 new locations in Yangon region will be designated as future industrial zones which means that most of the existing zones will see limited or no improvement or be eventually rezoned for commercial or residential use.

Industrial Estate Land Supply in Myanmar



Source: Department of Human Settlement and Housing Development (DHSHD); Colliers International Myanmar

Most of the industrial estates are located in the two major commercial areas namely Mandalay and Yangon divisions, accounting for just over 80% of the total industrial estate land. Just over half of the land is in Yangon region, due to the fact that Yangon is the logistics hub of Myanmar with roughly 80% of imports and exports passing through the various seaports of Yangon and the main international airport. Mandalay region has a significant population and also serves as the main commercial hub for trade between Myanmar and China. With the phasing in of Thilawa SEZ Yangon region is expected to continue to dominate the supply in the country moving forward.

Various locations throughout the country hold promise for industrial development such as Myeik in the Tanintharyi region, focusing on food processing, particularly fish. Border cities such as Myawaddy on the Thai border and Muse, bordering China, hold promise along with Pathein to the west of Yangon which is the Irrawaddy delta's main commercial hub for the rice growing sector. Bago, to the north of Yangon is a major crossroads and already hosts many large MNC's such as Jotun and Carlsberg, outside of any industrial zone.


Limited electricity for many industrial estates in Myanmar

There are many cases where industrial estates are planned yet with limited success, being faced with many obstacles. Many industrial estates include provision for luxury residences, shopping centres and other leisure facilities that are over ambitious and incompatible with the fundamental requirements of industrial tenants such as good infrastructure and transparent legal frameworks. What is holding back further development in other parts of the country is the lack of affordable electricity supply, a good road network along with environmental challenges such as flooding.

Yangon is Myanmar's pre-eminent port. While the port system served Yangon well in the past prior to containerisation, it has become unsuited to serve modern international shipping requirements. Due to the river's low draft and the existence of two sandbars, Yangon is inaccessible to modern, efficient container shipping hence the reliance of Myanmar on the Malaccan transhipment ports of Klang and Singapore. While a deep-sea port in the south of Yangon has been mooted, the amount of dredging involved would appear to make this project somewhat ambitious.

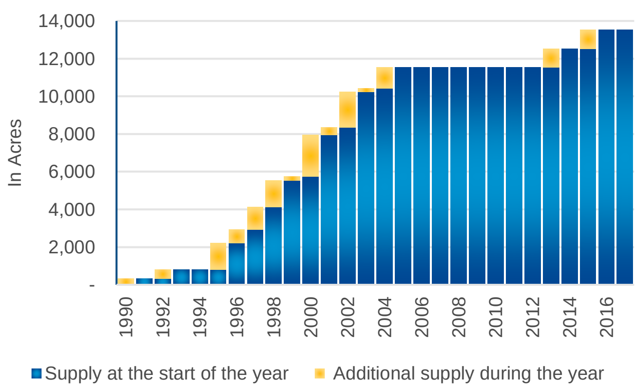
Other deep-sea port potential locations include Dawei in Tanintharyi region where a planned SEZ has been in the works since 2008 with around 250 square kilometres slated for development. A combination of the long distance from Yangon and mountainous terrain linking Thailand means the project will continue to face many challenges. Kyauk Phyu SEZ is the other main industrial/port project which is located in southern Rakhine state. The project envisages 4,000 acres with strong Chinese backing having the potential to become Myanmar's petrochemical hub. Continued economic, environmental and social concerns in Myanmar have hampered progress. One other option for a future deep-sea port is Kalar Gote island, just off Mawlamyine in Mon state; a location favoured as the eastern terminus of the Greater Mekong Subregion East-West Economic Corridor.

Further Expansion in Yangon Industrial Supply

The first industrial estate in Yangon was Shwe Pyi Thar first phase, developed in 1990 with 336 acres. Many industrial estates were developed in the nineties with the largest ones being Hlaing Thar Yar, Dagon East, Dagon Seikkan, Yangon Industrial Zone and Shwe Pyi Thar. Overall supply reached around 11,500 acres in 2004 just after the US sanctions and no new supply was added until the next decade. With the completion of the first phase of Thilawa SEZ and further phases anticipated, supply in the south east of Yangon will be a key component of the region's industrial landscape. Hlaing Thar Yar is popular as an abundant supply of cheap labour and contains many cutting-making-packaging (CMP) garments for export factories.

Yangon Industrial Park and neighbouring Mingalardon Industrial Park are regarded as good locations for logistics purposes where goods can be shipped from factories further north and broken down for delivery around Yangon in smaller vehicles as well as their proximity to the main airport. The latest addition is Thilawa SEZ, which benefits from greater transparency, good infrastructure, SEZ incentives and a location near to the less congested port. Plans for further industrial estates remain vague and future estates may be established further from the city. A recent announcement b,y the Yangon Regional Government to start 11 new projects may be an indication of this trend with remoter areas such as Thongwa, Thanlyin, Kungyagon, Kawhmu and Twantay being suggested.

Yangon Industrial Land Supply

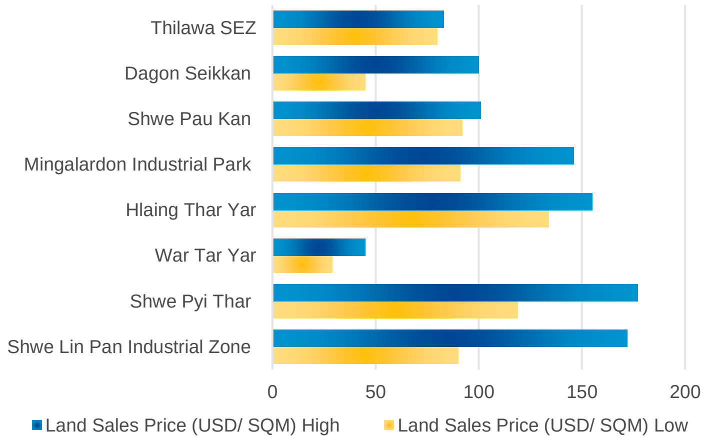


Source: Department of Human Settlement and Housing Development (DHSHD); Colliers International Myanmar

Sold Land Plots Remain Vacant

Most of the industrial estates in Yangon were easily taken up in the form of long-term leases with a sold-out rate estimated to have been around 98% up until 2016. While many of these developments were introduced more than a decade before the opening of the economy to the global market in 2011, land prices were relatively low which drove many to purchase properties as a form of storage for wealth and speculation. However, it is likewise noticeable that while most of these lands are sold, many remain vacant being left undeveloped without any facilities or a simple makeshift structure. Nonetheless, the recent increase in the number of private industries and manufacturing FDI are positive demand indicators which bode well especially for future international quality industrial estates. The population and location of the main ports make Yangon the mainstay for manufacturing FDI into Myanmar although nearby Bago may compete with Yangon. Many companies have already set up in Bago but are not located in an industrial estate. With the planned international airport at Hanthawaddy being located in Bago, the whole of northern Yangon and Bago could develop into a significant industrial corridor.

Industrial Land prices in Yangon (Asking Rates)



Source: Colliers International Myanmar

In most cases the asking price should be treated with strong scepticism. Such high rates are unrealistic and based on a lack of market knowledge and naive speculation. Thilawa SEZ represents a more realistic price at around 80-83 USD per sq. m for actual transactions with far superior infrastructure compared to the others. Land prices in the current state run industrial estates should fall due to the unclear ownerships, poor infrastructure and the introduction of new and better quality competition. If stricter regulations on unused industrial estate land are enforced this would likely lead to a further drop in transacted prices, however this will also add liquidity to the market and thus support the industrial development of the country.

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