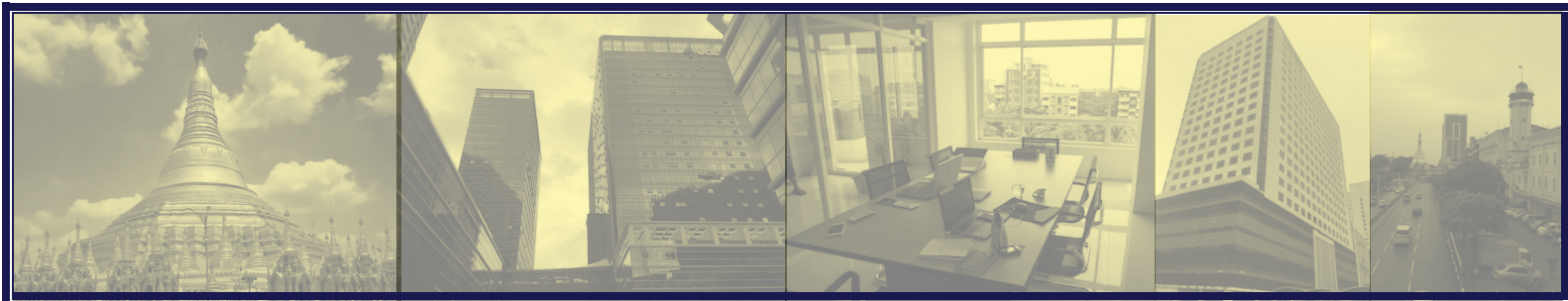


Yangon

OFFICE MARKET REPORT H1 2019

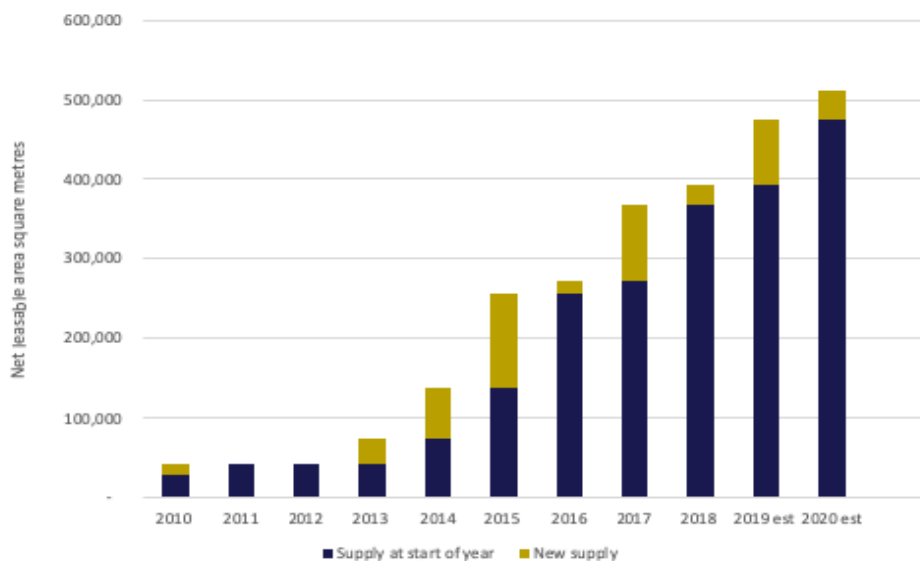


Tenants seeking value for money

Summary

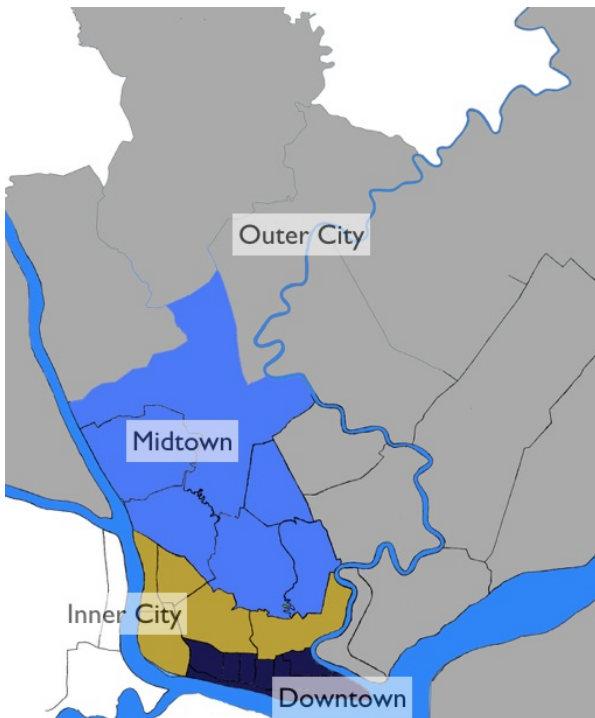
- Lower rental rates buoy occupancy levels
- Limited new entrants due to political situation
- Gradual reform process positive for existing businesses
- Continued move towards dedicated office space

HISTORICAL SUPPLY OF OFFICE SPACE IN YANGON



Source: Picon-Deed Research

INTRODUCTION TO YANGON



For the purposes of this office report the city has been divided into four zones that are geographical amalgamations of Yangon's existing townships.

Downtown represents the historical commercial centre of the city, where the river ports drove commerce and economic activity. And despite Yangon growing quickly, downtown continues to be the main central business district (CBD) and the home of most grade A office buildings. With future developments in the pipeline and a planned 64-acre Yangon Central Railway Station redevelopment, downtown's CBD status is set to remain unchallenged for the foreseeable future.

The **Inner City** contains five townships to the north of the downtown area. The zone has seen comparatively little office development in the past, and few projects are planned for the future.

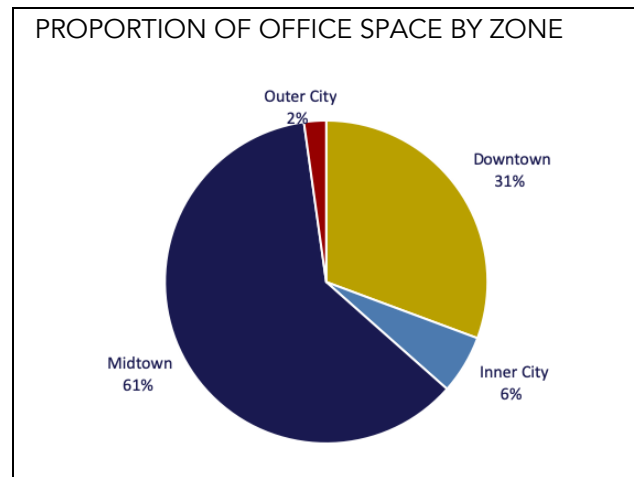
The **Midtown** zone has been the region of choice for office developers in the last five years, especially Myanmar Center, built by Vietnamese developer Hoang Anh Gia Lai Group. The zone's popularity has been underpinned by the availability of large land plots, and there are multiple large projects underway in Midtown that will hit the market inside four years.

Limited office development has taken place outside of the main city areas. While other more developed

Southeast Asian cities have seen new outer city business districts rise up, Yangon's peripheral growth is still in its infancy.

SUPPLY

Prior to the opening up of the country from late 2011 there were few office buildings in Yangon, which was a clear reflection of the country's economic isolation. What few buildings existed were the fruit of a brief boom in the 1990s that saw some activity, mostly in the Downtown zone, with three notable office buildings.



Source: Picon-Deed Research

Growth took off starting in 2013 with the completion of the second phase of MICT Park and the Union Business Centre, a refurbishment of the Electoral Commission headquarters. In 2014 supply roughly doubled with a number of offices opening, including Union Financial Center, Strand Office Complex and Prime Hill Business Centre. The addition of Myanmar Center in 2015 again doubled supply. By this point tenants had a much wider range of space to choose from in different locations outside of the Downtown zone. A further growth spurt occurred in 2017 with the completion of Sule Square and Junction City in the Downtown zone.

Kanthayar Centre, in the Inner City, added to overall supply in 2018 and Times City will contribute the lion's share of new supply in 2019 with the expected completion of its two office towers in a mixed-use development in Kamaryut Township within the Midtown zone. M Tower – also in Midtown – is due to be the main source of new supply in 2020.

HYBRID OFFICES

Over the past 10 years there has been an ongoing development of residential condominiums that have also targeted office users.

This report does not include such buildings as dedicated office supply because they also have significant residential occupants. Additionally, despite being named and marketed as business towers, such buildings pay only lip service to office requirements: such as dedicated receptions and the elevator capacity necessary for office use.

Notable examples of these buildings include Pansodan Business Tower, Myawaddy Bank Luxury Complex, Naing Group Office Tower 2 and the soon-to-be-completed Maha Nawarat Office Tower.

During the 2012-2017 boom period rental rates for dedicated office space rose to incredible heights in Yangon – sometimes more expensive than premium offices in Singapore – and hybrid offices provided a cost-effective solution to companies.

With rental rates falling dramatically over the past two years, many tenants have moved from hybrid to dedicated office buildings and companies may soon choose to overlook hybrid buildings altogether.

DEMAND

Demand for office space grew significantly after the opening up of the country in 2011 with many new foreign businesses establishing offices in Myanmar and existing companies scaling up their operations.

Many legal and accounting firms moved in to service regional clients entering Myanmar, while banking and insurance companies entered following government moves to open both sectors to foreign participation.

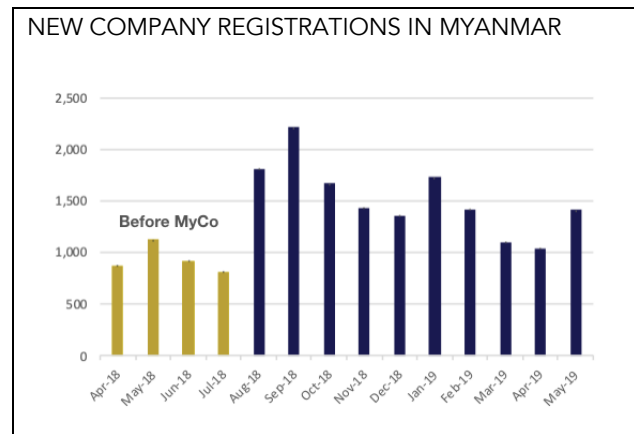
Multinationals entered or expanded their presence to develop their industrial base in the country, as well as marketing and distributing their products. Additional demand was provided by diplomatic offices and INGOs / NGOs.

However, the optimism that fuelled the boom has trailed off since 2016, and Myanmar has become less attractive to new entrants due to a slowing of economic reforms and the ongoing situation in northern Rakhine State.

This slowdown has adversely affected demand for office space from new companies setting up in

Myanmar at exactly the same time that large office buildings that were conceived during the boom period have been completed and brought to the market.

This production overhang has encouraged office operators to cut their rates sharply in a bid to encourage tenants at alternative office options such as condominiums, hybrid offices and villas, to move into dedicated office spaces. This trend echoes similar patterns in other previously frontier market cities such as Ho Chi Minh City and Phnom Penh.



Source: DICA / Picon-Deed Research

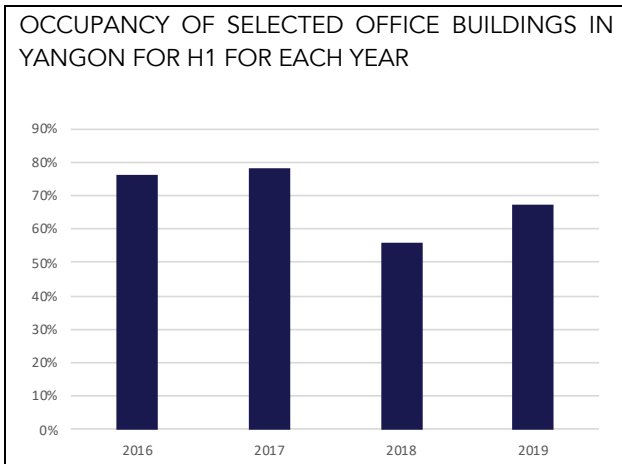
One indicator of office demand is the number of new companies setting up. Company registrations surged after a more streamlined online company formation service called MyCo was implemented in August 2018.

Yangon will continue to be the main focus for commercial activity because around 25% of the country's GDP emanates from Yangon Region.

The city is expected to grow to house more than 10 million people by 2030. As the economy continues to grow, the office market should reflect the increasing GDP as companies expand.



OCCUPANCY



Source: DICA / Picon-Deed Research

Occupancy levels often fluctuate significantly in frontier markets due to large surges in supply in proportional terms in conjunction with limited increases in demand. This has been the pattern in Yangon as new larger office towers have been completed and have entered the market in the past five years. The addition of new space in the latter half of 2017 adversely impacted the occupancy levels for 2018. Limited activity in 2018 has led to greater absorption of existing supply in 2019.

FUTURE DEMAND DRIVERS

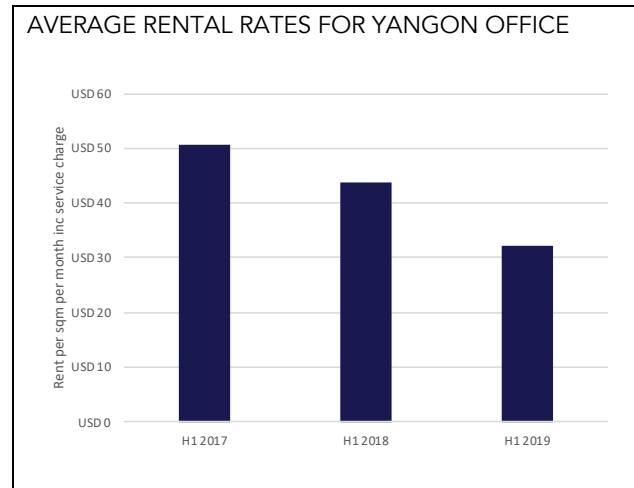
In frontier markets such as Myanmar new policies directed to one particular sector can provide significant stimulus to the office market. The insurance sector is expected to be one of the main key drivers for office demand in 2019 and the following few years after the government allowed foreign insurers to operate in both life and non-life sectors either as wholly owned companies or joint-ventures. Insurance companies and intermediaries such as brokers are set to expand rapidly as a result of the opening and will take significant office space.

There has also been further liberalization of the banking sector. Existing foreign banks are now allowed to open more than one branch and are also allowed to loan to local businesses. Foreign banks can also own up to 35% of local banks that comply with the provisions of the Companies Law. These changes, along with continued growth in the economy in general, will lead to further demand for space from the financial sector.

Positive growth in manufacturing and logistics are expected to continue, especially with the further integration of ASEAN and China through the Belt and Road Initiative. Over time companies operating in

these sectors will be expand and further increase demand for office space.

RENTAL RATES



Source: Picon-Deed Research

The significant increase in new office supply over the past five years, along with a slowing down in growth and sentiment in the economy, has meant occupancy rates have declined. As a result, the demand and supply dynamics has led to office rentals coming down to levels more familiar to tenants in Bangkok and Ho Chi Minh City, and not those of Singapore or London in the recent past.

The overall effect has been positive for tenants with many vacating alternative spaces and moving into more affordable dedicated office options. As with any soft market headline rents can be reduced or incentives given for large occupiers of space.

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Contact email: picondeed@gmail.com

Unit 1408, Sakura Tower, 339 Bogyoke Aung San Rd
Kyauktada Township, Yangon