



8 Hot Topics for the Myanmar Property Market - An Essential Read for Developers, Investors, and Tenants.

May 2014 Market Update

Dear Reader,

Myanmar's property market in the last year can be described as tumultuous. Most foreign developers are eagerly waiting for the condominium law (expected in 2014); the result of 2015 national elections; or both events before they enter Myanmar. Foreign buyers contacting Scipio with the intent to purchase units or land are given the automatic response 'wait' – 'wait' for the condominium law.

We think waiting is the most prudent advice at this time, and we'll explain why in this update. However, we do not advise standing by idly. Much like a runner prepares for their sprint, foreign entrants must take this time to prepare for their long and profitable run in Myanmar by collecting market knowledge, formulating an investment strategy, understanding (and perhaps beginning) the Myanmar Investment Commission (MIC-permit) process, prospecting plots, and conducting thorough prior planning.

Of course there is an established industry of local developers and further there are the few foreign entrants that, prefer not to, cannot, or won't, wait. We'll explain the strategies of those who have assumed the additional risks and moved ahead in the property market.

This update on the Myanmar Real Estate Market speaks topically to investors, developers, and tenants.

For those hurried to enter the Myanmar property market we answer the following questions:

- 1 How are the few foreign entrants already entering the Myanmar market?
- 2 What are the potential pitfalls for foreign entrants to the Myanmar market today?
- 3 What are the locals doing in the property market?

For those who are waiting to enter the Myanmar property market we'll speak about the following topics:

- 4 The importance of the condominium law.
- 5 The MIC-permit process explained.
- 6 Next steps in your preparation for market entry.

Finally, for those in need of a brief on the Myanmar property market, we'll explain the following subjects:

- 7 A general Myanmar Property Market overview.
- 8 Entries of Global Players in the Last Two Years.

Scipio Services offers real estate advisory, property management, and brokerage services specifically in Myanmar. We have assisted foreign entrants with plot identification, land valuations, market studies, and property management in Yangon, Myanmar. For more information, please contact our team at Enquiry@ScipioServices.com; visit our website at www.scipioservices.com to download our full property market report; or tour our offices at www.TheYorkCenter.com.

Sincerely,

Brett David Miller
Managing Director



8 Hot Topics for the Myanmar Property Market

An Essential Read for Developers, Investors, and Tenants



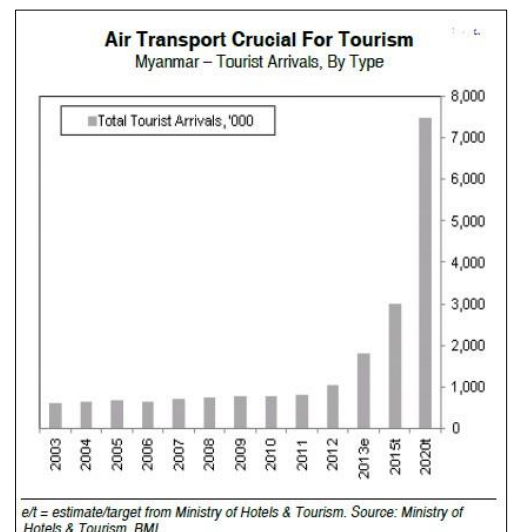
1. How are the few foreign entrants already entering the Myanmar property market?

There are three general approaches foreign entrants have used to move into the Myanmar market;

- 1) **Build-Operate-Transfer agreements (BOT):** By securing their Myanmar Investment Commission (MIC) permit and entering a long-term lease under a BOT agreement with a government ministry, the military, or the local government.
- 2) **Private BOT: In joint-venture or long lease:** By entering a joint-venture with a local partner(s), whereby all partner(s) form a foreign-resident development company and seek an MIC-permit, to enter into a BOT agreement, whereby the lead-local partner's entire or largest portion of their contribution to the joint venture is the long-term lease. Or by seeking a landowner with a freehold, or grant-hold title with an acceptable number of years remaining, and then securing an MIC-permit to develop and operate on the plot for up to 50+10+10 years.
- 3) **Proxy Ownership:** By financing a Myanmar citizen to purchase property or a long lease on the foreign entrant's behalf. There are a few variants of this strategy, like utilizing a law firm who assigns a nominee. *(Note: This is not legal, and there's no protection under the law.)*

Foreign entrants for BOT schemes are generally hoteliers. Specifically in Yangon, hoteliers have entered under BOT agreements because the present supply of rooms are occupied at or near 100% for most of the year despite seasonality, and at room rates significantly higher than regional cities such as Bangkok. With an estimated increase in tourism from approximately 1 million visitors in 2012 to over 3 million in 2015, foreign entrants are willing to invest in advance of the 2015 national elections.

It's no surprise then, that the number one inquiry from developers through our www.ScipioServices.com website is a request for information on how to find land or existing buildings and operate a hotel. A common number of those inquiries specifically target boutique sized projects (100 rooms or less), and heritage buildings. Heritage buildings, built during the British occupation, are generally complicated because of title ownership issues. That said, there are opportunities with the heritage buildings from time-to-time, and Scipio is a great source of information for these renovation projects as we have successfully





renovated one building in downtown Yangon CBD, (www.theyorkcenter.com) and were the exclusive broker in Myanmar for of the ex-U.S. Chancery in Yangon, CBD.

Interested developers and investors need to be aware of their competitive landscape as the hotel industry is active. New projects that are underway or opened include the Park Royal Hotel in Nay Pyi Taw, and Yangon's projects including the Novotel Hotel near Junction Square, the Hilton to arrive at CentrePoint Tower, the Best Western rebranding of the Green Hills Hotel which is behind the Chatrium Hotel, the rebranding of the Traders Yangon to Sule Shangri-La, the announcement of the new Lakeside Shangri-La, moves from Accor, Kempenski, Marriott, and Starwood among others. Domestic operators should also be considered in your market studies as they file a considerable majority of applications to the Ministry of Hotels and Tourism, and are quick to market because they do not need to proceed through the MIC-permit process as their foreign competitors do. If you're looking to enter the market and you have not heard of Hotel 7 Mile (a 53-room hotel at 6.5 mile Pyay Road in Yangon) or any of the almost 250 new hotel projects (20,000 rooms) approved by the Ministry of Hotels and Tourism in Yangon, then you'll need to conduct an in-depth market study.

Here are two examples of foreign entrant developments that ARE NOT HOTELS which have been announced and are in process in Yangon, Myanmar.

Golden City: The former Central Military Account Building, a military owned land, was recently awarded to a Myanmar citizen through private negotiations on a 50-year build-operate-transfer (BOT) agreement which has two additional 10 year extension options. The Myanmar citizen - apparently operating under his friend's company, Jewelry Luck Family Group Co., Ltd (JLF) - then sought a joint venture with a foreign developer.



As reported, Uni Global Power Ltd , a Singapore-owned investor, who, together with local partners formed a foreign-resident company Golden Land Real Estate Development Company Limited, have rolled out plans to build a US\$230 million complex in Yangon's Yankin township that will feature several residential skyscrapers, a five-star hotel and a shopping mall, (Golden City).

1 "Singapore, Myanmar firm roll out \$230m 'Golden City'" in Myanmar Times, By Zaw Win Than on Sunday, 02 March 2014.

According to sources involved in Golden City, 500 of the initial 1200 condominium units to be built in phase 1 of the project have been pre-sold. The prices fetched for these units were between US\$250 – 300 per square foot.

HAGL Development: The former Head Office for the Ministry of Industry No. 1, this plot is a BOT agreement between the Directorate of Hotels and Tourism under the ministry and Hoang Anh Gia Lai Myanmar Company Limited of Vietnam. Hoang Anh Construction & Development House Joint Stock Company of Vietnam initially provided funding for the construction project.



Hoang Anh Gia Lai Myanmar Centre will include hotel rooms, conference rooms, a business center with shopping malls, restaurants, recreation, offices and apartments. Reportedly, construction will be divided into two phases, with the first stage intended to establish a commercial center, a five-star hotel with 480 rooms, and a 27-story office building for lease, from 2015. The second phase, expected to reach completion in 2017, will set up four building blocks consisting of 1,800 apartments and another office building, with both facilities spanning nearly 64,000 square meters.



2. What are the Potential Pitfalls for the Foreign Entrants Already Entering the Myanmar Market?

The most apparent pitfall for developers intending to sell units that are within a BOT agreed development is the legality of the sale of those units within the development.

Considerable rumors have circulated around the Golden City since its announcement and pre-sales event, some of these rumors bring reasonable question to the development, and others we suspect may be present to undermine their sales effort. Most notably, with an underlying BOT agreement the selling of units may be misleading. Many buyers have questioned, and been outspoken about the legality of selling a unit that is being built upon land in a BOT agreement.

Another concern we have heard from multiple buyers is without the buyer having any claim to the land, and considering an underlying BOT agreement, is there any recourse for a buyer if the project is not completed and delivered as advertised?

Developments will rely on local buyers until foreign buyers are allowed to enter the market and purchase units. Rumors, though they may only be heresy, will affect sales and reputation in the market; if you have negative rumors surrounding your project then your project could be seriously inhibited or undermined. We would advise that when you enter the market you work with reputable brokers and devise a clear marketing message of what is on offer; be prepared to answer the difficult questions by displaying transparent and timely information into the market.

"We requested Scipio to evaluate a potential real estate investment for us in Yangon. Scipio team was very quick to respond to us with a comprehensive proposal covering all our needs. The evaluation research report (and market study) was very informative and gave us a good idea on what we could achieve with our investment in the project. In addition to the standard valuation of the investment and the possible returns, the report also provided a thorough understanding of the market, future trends, property values, and market rates for all pertinent land uses.

The Scipio team went an extra mile to provide us additional parameters regarding the local estimates of cost of construction/ renovation which they thought would help us in the next phases of our project.

The report was comprehensive, communicated a great knowledge in the market, and Scipio was thoughtful and inventive. Would definitely engage Scipio team with all my future projects and highly recommend to potential investors looking at Myanmar market."



*Kshitij Chaudhary
Iceberg Goldings*



"Scipio and Myanmar Deals Leasing property procurement system is transparent and effective. They understand the Myanmar property market thoroughly and have access to a good supply of high-quality real estate. Based on my requirements, they pre-vetted properties, gave me their recommendations and took me to see the most suitable places. They then helped me with the lease negotiation and due diligence, making the whole process easier. I felt throughout that my needs and interests guided their operations, and this was very reassuring.

Once placed, they continued to help me set up my residence. I felt so comfortable with their tenant representation that I've contracted them for property management. From my professional position and high workload the effective management of my residence allows me to concentrate on my job and not have to deal with the many property issues that are all too common in Yangon. I regularly recommend Scipio because they are a solid team, paying fair compensation, and treating their employees with respect."



*Graeme French
HSE Advisor, Daewoo*





3. What are Local Firms Doing in the Property Market?

Presently there exist two major incongruences in the property market that have fueled high land and unit prices in Myanmar. Firstly, there is a substantial amount of cash from locals, with no other suitably conservative domestic investment alternative besides real estate to store this vast amount of cash; secondly, there is very short supply of viable lands and units, specifically in Yangon, at a time when we have experienced a surge in domestic and foreign derived demand.

Cash incongruence

As Myanmar has opened to the world stage, individuals in the extractive industries, manufacturing and distributing goods, or large service providers, to the country's population of an estimated 60 million have continued to amass great wealth. These individuals, though having outlets to foreign investment, prefer to keep the majority of their wealth in Myanmar under their protection and realm of influence. Further, with land values appreciating to unheard of levels in the last two decades, it is understandable why Myanmar citizens want to invest in their own country.

Limited available lands

It's generally accepted that over 90% of the land area of greater-Yangon is owned by some form of local or national government (including leasehold grants that are assumed to be renewable). Land that once was occupied by ministries, military facilities, and civil servants, but now sits vacant after the national government moved the capital in 2005 to Nay Pyi Taw has begun to be sold or entered into BOT agreements with private citizens and foreign developers.



Here we have highlighted a few of the larger and more popular developments in Yangon, Myanmar. This is by no means an exhaustive list of developments, but provides a good brief of how the Myanmar citizens are leading the property market.

Residence 68: The freehold plot at #68 Kabar Aye Pagoda Road, owned by Dr. Aung Kyaw Win and Dr. Thet Thet Khine (owners of Shwe Nan Taw Jewelry) have seemingly funded this project alone, recruiting a developer, CapitaLand, and operator, Ascott, to brand their project the Somerset Kabar Aye Yangon, due to open in early 2018. The 153-unit mixed-use development will provide luxury serviced condominiums.

The sales prices for units range from US\$350 – US\$450 per square foot at pre-sales rates. Upon reservation, an amount of MMK 5,000,000 is due, with incremental payments due until completion.

The Gems Garden Condominium: Is a freehold plot being developed by Capital Diamond Star Group. The estimated US\$100 Million condominium project will be built in phases with 584 apartments in four separate 21-story towers aimed at completion by 2017 and a second phase of the project is to develop a shopping mall on the site, along with an office tower, while the third phase is more residential housing.



Unit sizes range from 897-1505 Square feet and are offered between US\$190 – US\$260 per square foot.

Diamond Inya Palace: As reported in the Myanmar Times², The US\$60-million, 34-storey Diamond Inya Palace building sits on a 2-acre block near Inya Lake, and is wholly owned by MGW Construction. Quoted in the article, Ma Khin Ohnmar Tun, the company's senior sales and marketing manager, said "We're expecting to sell rooms to both locals and foreigners."

² 'MGW plans Myanmar's tallest building' By Kyaw Hsu Mon on Monday, 29 October 2012



Strand Office Complex: Apparently KBZ Bank (the largest Myanmar private bank) was awarded the former government office on the Strand Road for 50+10+10 BOT agreement. KBZ engaged Jewellery Luck Family Group Co., Ltd (JLF) as the local developer.

According to the Strand Office Complex website, The Jewellery Luck Family Group, (formed in April 1995) is a conglomerate based in Myanmar with interests across several industries including natural resources, hospitality and real estate. The JLF Group is involved in the extraction, processing and trading of timber and is today one of the largest exporters of raw and processed timber products in Asia and globally. The hotels and hospitality division of the JLF Group operates numerous hotels in Myanmar, the P.R.C. and Singapore.

The JLF Group has recently secured development rights to over 80 acres of land in downtown Yangon, the largest city and commercial capital of Myanmar. The pipeline of projects include premium residential, commercial and retail space as well as luxury hotels and serviced apartments.

Golden Land Investment Group is the exclusive partner of the JLF Group in the sales and marketing of its real estate projects in Myanmar. They also perform the role of investor relations for the JLF Group in Singapore.

Pun Hlaing Golf Estate: The Pun Hlaing Golf Estate is the first private golf estate in Myanmar developed by Hlaing River Golf & Country Club Co., Ltd, a Joint Venture Company between Yangon Nominees Ltd., a member of the SPA/FMI Group of Companies, and, the Department of Human Settlement and Housing Development of the Ministry of Construction.



Buyers of plots within Pun Hlaing sign a 'Deed of Mutual Covenant' that defines an owner as receiving a 60-years Leasehold Grant from Department of Human Settlement and Housing Development; and those persons that acquired a flat in the condominium building within the Pun Hlaing Golf Estate.

It is marketed that over 80% of Pun Hlaing's residential communities are foreign-owned; however this brings up questions which we have found difficult to secure confident answers. Is it legal for foreigners to hold this leasehold grant? If so, why have not other developers (*been able to*) taken advantage of this strategy allowing (non MIC-permitted) foreigners to lease longer than 1 year terms?

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4. The Importance of the Condominium Law

There are two primary aspects to the Condominium Law; foreign ownership, and the ability to hold title and use this title to secure a loan.

Foreign entrants are closely watching the progress of this law and hoping to see the draft condominium law, which was published on November 10, come into law soon. The law covers Yangon, Nay Pyi Taw, and Mandalay, with other towns and regions to be specified. According to the draft, foreigners will be eligible to own up to 40 percent of the units in a project, so long as the unit is above the 6th floor.



Yangon's residential market forward...

Provided is an excerpt from Property Report's article 'Special Report: Myanmar in motion' by Robert Carry on the Condominium Law:

While waiting to see if a new Condominium Law opens up Myanmar real estate to the world, major developers drive

...It's (the condominium law) expected to give foreigners the right to own condominium units in line with laws in place in Thailand or Cambodia. "That's going to shake up the industry," adds Miller (of Scipio). "It's going to be a frenzy of developers."

It's a view echoed by (Serge)Pun: "The foreigners coming in are mainly in the top end of the market. They're interested in new, modern, quality apartments. There will be push in the upper tier of the market when foreigners are allowed to buy."

The potential growth that the new Condominium Law could trigger won't stop there: "The main thing about the Condominium Laws is not about foreign ownership," explains Pun. "Right now, strictly speaking there's no title granted when you buy or own an apartment. That means apartments cannot be used as collateral when looking for a loan. The Condominium Law is going to clearly define strata titles which will, in turn, enable many of these apartment buyers to use the property to get loans. That is going to free up a massive amount of capital—and it will be a major boost for the market."

Myanmar's real estate market is riding the crest of an ever-growing wave and companies like Yoma Strategic offer investors an early-in. For those looking for a more direct line into the market here, the condominium laws will provide the mechanisms needed for foreigners to own units directly. And with the spiral in local demand set to be triggered once apartment ownership laws are cleared up, investors who get in early may well see significant returns.



- See more at: <http://www.property-report.com/special-report-myanmar-in-motion-33236#sthash.nifqd9eA.dpuf>



5. The MIC-Permit Process Explained

The following summary provided by Interactive Thailand, explains the MIC-permit process best. See <http://www.interactivethailand.com/company-registration-myanmar/> or visit Interactive Myanmar's office for legal and accounting help through the MIC-permit process.

Step-1: Applying for Myanmar Investment Commission's Permit

Companies under this law have to apply for permit of Myanmar Investment Commission (MIC) first to be able to enjoy three years' tax holiday which is (*the*) period of construction or first three years of business activities during which companies are exempted from paying customs duty.

Essential documents required for this process are:

- a) Proposal to the Foreign Investment Commission in the prescribed form – Form I
- b) Draft contract or contracts, as the case may be (eg. JV Agreement)
- c) Draft Memorandum of Association and Articles of Association
- d) Feasibility Study and Profitability Projection Statement for the project period or first ten years, including a "Cash Flow Statement"
- e) Bank reference regarding financial standing
- f) Lease of Land or Properties with maps etc.
- g) For a company, (i) last two years' Annual Reports and (ii) Performance guarantee

Step-2: Applying for 'Permit to Trade'

Apart from a joint venture with the government, as it is regarded as a local company, every business entity needs a 'Permit to Trade' issued by the Directorate of Investment and Company Registration (DICA).

The following documents are required to apply for 'Permit to Trade':

- a) Intended business or economic activities
- b) Statement of Estimated Expenditure for first year of operations
- c) Bank reference regarding financial standing of the Subscribers to the Memorandum & Articles of Association
- d) Power of Attorney in favour of individually signing the applications, if he/she is not a subscriber to the proposed Company's Memorandum and Articles of Association or one of its proposed first Directors
- e) If any of the parties is a company, Board of Directors' Resolution to incorporate a Company in Myanmar
- f) If the Company is to be incorporated as a subsidiary of a company abroad, accounts of the parent company for last two years duly signed, authenticated and legalised. (If accounts are published and properly bound, it is not required to be authenticated and legalised.)
- g) On receipt of approval of the application, 'Conditions' attached thereto must be agreed, signed and returned to DICA.

Remittance of capital

The minimum capital set out in the 'Conditions' have to be brought into Myanmar in two installments: the initial half before issuance of the permit and the second half within twelve months after. The initial capital is required to be remitted either to Myanmar Investment & Commercial Bank or to Myanmar Foreign Trade Bank. After the receipt of credit is presented, the 'Permit to Trade' is issued.

Step-3: Incorporation of company

With a photocopy of the 'Permit to Trade' attached, the application for incorporation of the company has to be filed.

The following data are required for this purpose:

- a) List of persons authorized to accept service of notices and processes;
- b) Particulars of the Directors and their details such as address, occupation, nationality
- c) Passport copies and photos of Directors
- d) List of shareholders and share ratios
- e) Particulars of shareholders and their details such as address, occupation, nationality

The estimated time frame for this incorporation process is 4-6 months.

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6. Next Steps for Your Market Entry

Here's an article 'INVESTING IN MYANMAR: TEN THINGS TO KNOW' By Eric C. Rose - Thai-American Business Magazine - Vol. 6 November 2013. Eric Rose is the Lead Director of Herzfeld Rubin Meyer and Rose Law Firm Limited, Yangon, Myanmar. He can be contacted at eric.rose@hrmr.us. This article provides a great depth of knowledge for those considering market entry.

1. KNOW THE INVESTMENT ENVIRONMENT

The FIL has specific provisions which guarantee the safety of foreign investment from nationalization, and it also provides for repatriation of profits and invested capital. Similar provisions apply to investments made in the three Special Economic Zones ("SEZs - Dawei, Thilawa and Kyauk Phyu) that are covered by separate legislation. Although Myanmar law applies to all foreign investment, the country has mutual investment guarantee treaties with only seven countries: Thailand, Laos, Vietnam, Philippines, China, Kuwait and India. Furthermore, Myanmar has just become a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA). OPIC and the U.S. Export-Import Bank, however, are not present in Myanmar. Thus an investment made in Myanmar from a non-treaty country increases the risk to the foreign investor.

2. CHOOSE THE RIGHT CORPORATE FORM

Under the Myanmar Companies Act there are numerous types of incorporation one can select to operate in Myanmar. Without enumerating the possibilities here, we advise our clients to look first at what they are trying to achieve from a business standpoint, in the short and in the long term. How will the Myanmar entity relate to your other investments? Do you want to retain a 100% interest? Do you want a local partner?

If you want to own 100% of the Myanmar entity, an application to the Myanmar Investment Commission (MIC) for a statutory exemption is necessary if the investment does not qualify for such percentage under the FIL. The MIC will consider each application on its merits, and an exemption may be granted if the application is not opposed by the relevant ministries.

3. CHOOSE THE RIGHT CORPORATE PARTNER

If a local partner is required, due diligence is critical and complicated by Myanmar's lack of public records from which the real condition of a business can be ascertained. If the potential investor is an American investor, the potential Myanmar partner must be vetted through the US Treasury Department's Office of Foreign Asset Control's (OFAC) Specially Designated Nationals (SDN) process (<http://www.treasury.gov/ofac/downloads/ctrylst.txt>). This is a crucial step, as there will be draconian restrictions imposed if a US party engages with a SDN-listed party without an OFAC license. Recently, this US approval process has been somewhat streamlined, and we have been successful in obtaining an OFAC license in record time (five weeks).

4. KNOW HOW TO TALK TO YOUR US BANKER

On July 11th, 2012, OFAC issued Burma GL-16 (<http://www.treasury.gov/resource-center/sanctions/Programs/Documents/burmagl16.pdf>) authorizing financial services to Burma, with limitations (see explanation at: <http://www.treasury.gov/press-center/press-releases/Pages/tg1633.aspx>). Subsequently, OFAC issued Burma GL-19, which permits certain financial transactions with an additional four SDN-listed banks. Yet, many of the 10,000 or so U.S. banks seem not to be aware of these changes, erroneously informing their clients that they cannot offer financial services to/from Myanmar due to OFAC regulations. As a result, before embarking on any investment activity in Myanmar, the US investor must ensure that its financial institution agrees to undertake transactions with Myanmar. Furthermore, financial services to/from a Myanmar bank currently have to be undertaken through a corresponding bank in Thailand or Singapore. Thus, the finance department of any American investor needs to be become keenly aware of the intricacies of sending money to, and taking money out of Myanmar.

5. KNOW YOUR COMPETITION

Oddly enough most businesses (27,000 and 24 trade associations), and many of your competitors in Myanmar can be found in one place: the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI). Although formed in 1919, it recently has become the place where businesses can meet on matters of common interest. While taking care to comply with US antitrust law, an American business should consider UMFCCI membership simply because the association can be a source of crucial

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information in a fast changing business environment. Furthermore, many foreign companies make contact with UMFCCI when they seek a potential domestic partner.

6. KNOW HOW TO COMPLY WITH MYANMAR LAW

Once your investment exceeds \$500,000, or your company has deals with the Myanma Oil and Gas Enterprise (MOGE), your company has an obligation to report under OFAC Burma GL-17 license (<http://www.humanrights.gov/wp-content/uploads/2013/05/Responsible-Investment-Reporting-Requirements-Final.pdf>). Although onerous on small businesses, these requirements can easily be met if the proper reporting and internal audit system is set into place from the outset. In our experience, proper training of local personnel will go a long way in facilitating the data flow required by these compliance mandates.

7. CHOOSE A SUITABLE LOCATION

Reading the news, you hear of Yangon office space rentals upward of \$22/square foot. Our experience is quite different. We have found first class office space in luxury condominiums in upscale neighborhoods at \$0.80/square foot. The issue is logistics: choose a location along a major road, install whole office power inverters (reliably made in Myanmar!), secure redundant Internet systems (e.g. fiber-optics, ADSL, WIMAX or satellite are available, with speeds up to 4 Mbps), a sophisticated phone system with hunting multi-line service, a solid lease agreement, and a location easily reachable by your staff. You can achieve similar results for industrial space, especially outside of Yangon.

(Note: We need to clarify that we disagree with this assessment of first class real estate at the rates described by Eric. First class real estate is found in sole-purposed office space, not condominium units, and the current market rates are generally between US\$78 – US\$112 per square foot per year. Non-serviced luxury condominium units at the time of writing are being offered between US\$24 –US\$36 per square foot per year. That said, you can find a space for operational needs if you're able to sacrifice corporate identity, and in the present market it's not out of the ordinary to have an office in a residence.)

8. KNOW HOW TO PROTECT YOUR INTELLECTUAL PROPERTY

Myanmar does not have specific trademark, patent or industrial design laws, and its copyright law dates from 1911. Yet, intellectual property protection can be obtained under the terms of the 2008 Constitution, the Penal Code (1861), the Specific Relief Act (1877), and another dozen or so statutes. The country is expected to modernize its statutory framework by 2014.

9. CHOOSE THE RIGHT COUNSEL

Seeking legal, accounting and tax counsel in Myanmar is an art form. Regarding law firms, for example, in Myanmar there are a couple of small Western firms, one licensed American law firm, and a few Southeast Asia-based firms. Before engaging any firm, your internal audit and legal representatives should ask: a) who established the firm (i.e. where are they based, who are their principals, have they ever been imprisoned, prosecuted for fraud, or disbarred); b) which ethical standards are they following (e.g. do they enforce the American Bar Association Model Rules); c) have their clients included "cronies" or others who are SDN-listed?; d) have their attorneys/professionals been government employees during former military regimes, and what was the nature of their work; d) do they have competent specialized counsel available elsewhere if the needed local skill set is not present; etc. You will need lawyers covering corporate, compliance, intellectual property, real estate, litigation, labor and international law, at a minimum. Similar considerations should cover your accounting and tax advisors.

10. HOW TO HIRE PERSONNEL

Myanmar's labor laws are in transition, and so are the qualified workers available today. Some are proficient in the English language, but lack other skills (e.g. computer, Western norms of business, compliance, etc.). Others lack a good command of English, but are superb practioners. And some are expats returning to help their country grow. Thus, the labor pool is both small and large, and almost always inexpensive by Western standards, but with relatively low productivity. The Ministry of Labour has issued standardized labor contract guidelines. They should be used to differentiate oneself from the competition in attracting top talent.

Despite the challenges, Myanmar is an exciting opportunity not to be missed.



7. Myanmar Property Market Overview

The Leasing Market is Still Immature

Leasing of residential and commercial space to foreign tenants is a fast-changing but immature market within Myanmar because, until 2012, few landowners considered leasing revenue as a source of residual income. The majority of lease agreements prior to 2012 involved tenants hailing from the ASEAN Plus Three (APT) and India; but with the suspension or elimination of most major sanctions (with the notable exception being the US Treasury's list of sanctions and specially-designated nationals), the entrance of western and multinational companies has been profound. Their impact on the real estate leasing market cannot be overstated.

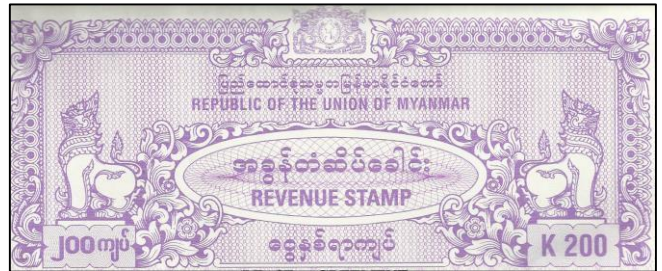
Combine this explosion of demand with the fact that land values have not declined in recent history, and you have a market ripe with optimistic owners pressing the boundaries for rental increases. A typical example of a rental increase saw the achieved rental rate for a single bedroom apartment downtown increase from USD\$800 in 2013 to USD\$1,400 in 2014. Don't be surprised to see extremely expensive asking prices, whether for personal residences on year-to-year leases, or on land for potential MIC-permitted projects.

Single Year Leases, Paid in Advance are the Norm

For residential and office space leases, only a one year contract is legally-defensible under Myanmar Law. Extension terms are often added into contracts and are usually enforced, but foreign entrants should beware of the risk. Only MIC-permitted companies, which must meet a minimum capital threshold of USD\$500,000 and receive government approval, are provided longer lease options.

Most landlords require that tenants pay this year in advance, with some contracts requiring a security deposit to protect included furniture and cover any unpaid utilities at the end of the term.

Several large, institutional tenants have pressed the issue of one year payment terms on residential units, with varying amounts of success depending on individual landlords.



Since the leasing market in Yangon and Myanmar is only a few years old, many landowners are not prepared or experienced in handling the concerns and needs of a foreign tenant, regardless of what has been promised in the contract. A good tenant agent will offer a more secure leasing agreement from landowners by utilizing personal relationships to secure fair and safe arrangements for the tenant and following up on tenant concerns after occupancy.

Demand is Still Insatiable

Myanmar is known as a frontier market ripe for investment, as evidenced by The World Bank's recent upward revision in Myanmar's GDP growth (from 6.9% to 7.8%) to exceed the region. Reference the arrival of Pepsi, Coca-Cola, Samsung, General Electric, NSN, Ericsson, Nielson, Best Western, Hilton, Marriott, Ascott, Ooredoo, and Telenor are evidence that established, global companies to service the population have followed closely behind risk-tolerant early investors.

Other drivers of demand include the many recent oil and gas block awards, expansion of the telecom network (tripling the number of service providers), and the recent expansion of foreign aid budgets coming to Myanmar via Japan, Australia, the U.S., and many European nations. Embassies are expanding staff size to accommodate the increase in work load and development objectives; and countries such as Kuwait, Canada, and New Zealand have recently established full-time presences in country.

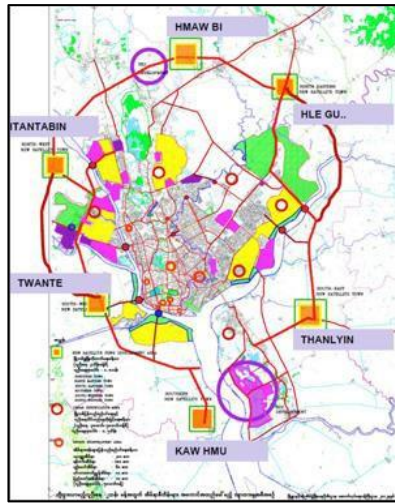
If elections in 2015 run smoothly enough to satisfy western observers, many expect sanctions will be eased further or eliminated completely, paving the way for significantly increased foreign participation in areas such as banking, manufacturing, and extractive industries.

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Supply is Coming, Slowly

A day trip through Yangon would show you countless new construction projects happening across the city. While projects such as the Shangri-La Residences (open now), the HAGL mega development on



Kabar Aye Pagoda Road (phase 1 – 2015), The Royal Malihka Luxury Condominium tower on Parami Road (late 2014), and Scipio's own York Center commercial office building (May 2014) are examples of high quality projects underway now, the majority of projects due for completion in the next 6-12 months are smaller residential towers. These projects are usually sold off plan to local ownership, with first buyers often reselling these units for significant profit before construction is complete.

With the rapid pace of development, and ever changing regulations, it is more important than ever that interested developers and investors commission a thorough market study of any potential project, to understand what new projects or pending zoning laws could impact their businesses. New arrivals to Yangon seeking residential accommodation or office space should know that new buildings are coming online now, but high quality and value spaces are renting within days of coming available. Current tenants should survey the market for new options before signing on a second year extension.

Foreigners Cannot Own Property, Yet

Currently, foreign ownership of land, buildings, and units is prohibited under Myanmar Law. However, a draft of the proposed Condominium Law was published by a local news outlet in November 2013, suggesting that up to 40% foreign ownership of condominium units above the 6th floor of select projects might soon be legal. A version of the Condominium Law was first introduced into parliament in November 2012 but no version has yet been ratified.

Scipio Services has an email list with updates on pending real estate market changes that could impact investors, developers and potential tenants. More than 1,500 people are on that list already, awaiting the ratification of this condominium law.

MIC Companies Can Take 50 Year Leases

Under the Foreign Investment Law, non-service companies that meet an investment minimum of USD\$500,000 may apply to the Myanmar Investment Commission (MIC), via their Directorate of Investment and Incorporation (DICA), for MIC approval, which provides many benefits including tax breaks, import licenses, and the ability to take long term leases of 50 years plus two 10-year extensions.

This MIC permitting process is complicated and will require the expertise of an experienced legal team; but the benefits can certainly outweigh the costs. Developers and Investors should consider this process as a necessary step in doing business in Myanmar, especially if they expect to repatriate profits from any size development. Foreigners that acquire a Build-Operate-Transfer (BOT) agreement to develop government land use this entity to acquire the underlying lease.



8. Entries of Global Players in the Last Two Years

Industrial Projects are Taking Flight

There are more than 25 recognized industrial zones in the Yangon region. These zones are in various stages of occupancy, with the Mingarlardon Industrial Zone in the north nearly full. Asking prices for vacant plots within these zones vary greatly according to individual plot owners. The recent arrival of Pepsi bottling services in country, following on the heels of Coca-Cola's return to Myanmar in 2013, signals that international firms may be finding a business case to begin production activities in Myanmar.



Several Special Economic Zones have been established in Myanmar including the Thilawa Special Economic Zone (SEZ) just south of Yangon, the Kyaukpadaung SEZ in the northern part of Myanmar and Dawei SEZ in the south. Thilawa SEZ's development was restarted recently, as a partnership between both government entities and private companies from Myanmar and Japan announced a share sale in February 2014 to fund the first phase of construction. Plans for Thilawa SEZ include housing a new port facility, manufacturing sites, and even a housing project.

The Hanthawaddy International Airport construction project near Yangon, which was tendered in 2012, was recently re-tendered due to financing issues on the part of the winning bidder - though only the original four bidders were invited to participate. This project will help Yangon cope with the expected rise in tourist and business visitors.

International Deals are Happening, Finally

Investors that arrived in Yangon in 2012 and early 2013 eager to ink a development deal were quickly dismayed by land prices and terms being offered by potential joint-venture partners. While some owners continue to ask for a premium price to joint-venture, several major international groups have had success finding viable partnership opportunities.

The HAGL site near the Sedona Hotel is an example of a Build-Operate-Transfer (BOT) deal between an international developer and the government; and the IFC recently announced a USD\$80million funding initiative for Shangri-La Asia's renovation and expansion of the iconic Trader's Hotel (soon to be Sule Shangri-La) and completion of its Shangri-La Residence towers of serviced apartments. Developers and Investors should know that more, and more complex, deals are happening.

In other industries, companies such as the RMA Group, which partnered locally to introduce vehicle brands such as a Ford and Jaguar to Myanmar, have found success in their local ventures. International food chains such as The Pizza Company, Swenson's, and Manhattan Fish Market have also entered the market; and Pepsi recently followed Coca-Cola in establishing facilities in country.



About Scipio Services

Scipio Services Co., Ltd.

Navigating Yangon's commercial and residential real estate markets can be a daunting task. The real estate environment can be opaque, often involving multiple agents and brokers between a property and a tenant. Further, sometimes disputed land ownership, unclear titles, and multiple claims can add significant risks. We provide clarity and comfort thanks to our exclusive Myanmar focus, trusted local partners, expertise and our commitment to staying fully informed of up-to-the-minute developments in the Myanmar property market.

At Scipio Services, we offer objective Myanmar real estate advisory services to your organization as you seek to enter this fast-developing market. We regularly provide market studies, land valuations, and bespoke consultations.

What does Scipio offer?

Scipio has three principal offerings:

- Real Estate Advisory – offering objective and analytical information for your market entry
- Facility Services – to manage your presence within the market
- Property Management – working with landowners to develop and maintain suitable spaces for future tenancy

Who uses Scipio?

Scipio's clients can be generalized into four groups:

- Organizations seeking market entry, including spaces suitable for their offices and staff accommodation;
- Organizations present in Myanmar which need facility services so that they can focus on their own objectives, mission, and mandates; and
- Property owners and investors seeking direction for their developments and a greater return on their investment.
- Investors seeking professional market intelligence and objective land valuations.

If you appreciate the information we have provided in this report then we ask you to come see our team in Yangon. We welcome you to visit us at The York Center, one of Yangon's newly-renovated sole-purposed office buildings, a Scipio Managed Property, on Yaw Min Gyi (York) Road. Get in touch with Scipio to take advantage of the opportunity presented by Myanmar's progressing political reforms.



The York Center – Yangon's Newest Commercial Office Building - www.TheYorkCenter.com

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