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Accelerating success.

Differentiation key to stay afloat

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New brick-and-mortar malls are opening across Metro Manila while online shopping platforms are proliferating and offering new items by the day.

Colliers believes that both physical and online retail platforms need to highlight their differentiating features to attract more consumers and stay in the game. We believe that mall operators that are redeveloping their retail outlets should use the additional space to tweak their tenant mixes and feature a more lifestyle-oriented merchandise mix to sustain consumer traffic.

Moving forward, Colliers encourages mall operators to cash in on rising tourist arrivals and spending by acquiring mobile payment schemes that cater to Metro Manila's major tourist markets such as the Chinese and Korean visitors that cover about 40% of the country's total arrivals.

Operators of physical malls should also maximize their partnership with online sales platforms. Meanwhile, e-commerce sites should improve the security features of their websites as authenticity of items being sold online remains a top concern amongst Filipino shoppers.

Classification of Retail Formats

CLASSIFICATION	TOTAL GLA (sq m)
Super Regional	100,000 and above
Regional	50,000 to 99,999
District Center	25,000 to 49,999
Neighborhood	Below 25,000

Source: Colliers International Philippines Research

Forecast at a glance

Demand
From 2018 to 2020, Colliers expects food and beverage (F&B) to occupy at least half of new retail space across Metro Manila. We see demand from footwear and clothing retailers picking up over the next 12 months.

Supply
Colliers projects some 110,000 sq m (1.18 million sq ft) of GLA being completed for the remainder of 2018. From 2019 to 2021, Colliers sees at least 200,000 sq m (2.2 million sq ft) of new retail space per annum. The new space should expand Metro Manila's stock by 11% to 7.6 million sq m (82 million sq ft) by end-2021 from 6.8 million sq m (73.2 million sq ft) as of Q1 2018.

Vacancy
We see overall vacancy in Metro Manila hovering between 8.5% and 9% by the end of 2018. From 2019 to 2021, we see an annual vacancy of between 9% and 10% as we expect much of the additional leasable space to be taken up by major mall operators' anchor tenants. We do not see Metro Manila retail vacancy breaching the 10% mark during the period.

Rent
RENT

Factoring in the new retail supply, We expect rents in Makati CBD and Ortigas Center to grow by only 1% and 2% annually from 2018 to 2021.

Retail Supply Forecast, GLA (sq m)

CLASSIFICATION	Q3 2017	Q1 2018	%CHANGE (HoH)	Q1 2019F	%CHANGE (YoY)
Super Regional	3,354,900	3,354,500	-	3,554,900	-
Regional	1,427,500	1,501,500	5.1%	1,555,500	3.6%
District Centre	1,339,600	1,375,600	2.7%	1,375,600	-
Neighbourhood	507,200	551,400	8.7%	594,800	7.8%
Total	6,629,200	6,783,000	2.3%	7,080,800	4.4%

Source: Colliers International Philippines Research

Differentiation crucial to remain relevant

In the Philippines, physical and online stores complement each other. However, developers and retailers need to highlight their differentiating features so as to stand out and attract greater consumer traffic. Malls in Metro Manila have been responding to the need to scale up their offerings, with new features ranging from the largest entertainment centre in the country to a farmer's market-inspired food hall.

The recently-opened Ayala Malls Feliz features the largest Timezone branch in the Philippines. Timezone is a family amusement arcade centre. The entertainment centre's Feliz branch features a trampoline park; a music room; and short-lane bowling alley.

SM Mall of Asia's 250,000 sq m (2.7 million sq ft) expansion is projected to be completed in 2019. The new space will feature a football pitch and a Manila to Acapulco trade-inspired galleon museum.

Ayala Land's Vertis North mall is featuring Korea and Japan towns that will offer curated retail and dining concepts from the two countries.

At the adjacent Trinona mall is the soon-to-be opened ABS-CBN experience store. The developer has partnered with media firm ABS-CBN to allow mallgoers to experience being part of the programs that they watch on ABS-CBN channel. The experience store also offers exclusive ABS-CBN merchandise.

Filinvest Land's Festival Supermall houses the first branch of Decathlon in the country. Decathlon is Europe's largest retailer of affordable sports equipment and sportswear.

Mall	Differentiator
Ayala Mall Feliz	Largest Timezone in the country
SM Mall of Asia	Football field and Galleon museum
Ayala Mall Vertis North	Korea and Japan Towns
Ayala Mall Trinoma	ABS-CBN Experience store
Festival Supermall	First Decathlon branch in the country
Podium Mall	Farmers' market-inspired food hall
Powerplant Mall	First Nespresso outlet in the Philippines

Source: Colliers International Philippines Research

New malls in underserved areas, existing outlets renovate

Four new malls opened across Metro Manila from October 2017 to March 2018 with Ayala Land Inc. (ALI) covering more than 80% of the new leasable space. During the period, ALI opened Ayala Malls Feliz, Cloverleaf, and Marikina heights.

Ayala Malls Feliz and Marikina heights added a combined 86,000 sq m (926,000 sq ft) of new leasable space to the eastern part of Metro Manila, which has a GLA per capita (leasable retail space as a fraction of total population) of 0.75 sq m (8 sq ft). This is lower than Central Metro Manila's 0.94 sq m (10.1 sq ft) which covers major business districts Ayala and Ortigas Centres. The retail arm of the Villar Group is also offering eastern Metro Manila residents with more options following the completion of its AllHome (a one-stop home needs store), All Day supermarket, Bake My Day bakeshop, and Coffee Project outlets along Circumferential Road 5 (C-5) in Libis, Quezon City in December 2017.

Ayala Malls Cloverleaf expanded Northern Metro Manila's retail stock by 36,000 sq m (388,000 sq ft). Northern Metro Manila comparatively remains the most underserved district of the country's capital in terms of leasable retail space with a GLA per capita of only 0.31 sq m (3.3 sq ft).

W Mall, a Waltermart retail outlet located in the Bay Area, also opened during the period offering some 12,000 sq m (129,000 sq ft) of leasable retail space.

Other malls across Metro Manila have been expanding to offer new retail experience to consumers and remain relevant among younger mallgoers.

The renovated and expanded Powerplant Mall in Rockwell Centre recently opened. The retail outlet's 5,600 sq m (60,300 sq ft) expansion features the first Nespresso outlet in the Philippines. The expanded mall also features pop-up stores of National Bookstore and Rustan's, the homegrown fashion retailer's first in the country. The mall's new wing also features a mix of foreign and local F&B brands such as Starbucks Reserve, Din Tai Fung, BAKE cheese tart, Café Mary Grace, Carmen's Best, and Mesa.

The renovated Podium mall in Ortigas Center had a partial opening in October 2017. The mall offers foreign brands such as Tsujiri, a 150-year matcha brand; Paris Miki, a luxury eyeglass outlet; and Wolfgang's steakhouse, the restaurant's second branch in the country. The mall's Corner Market features more than a dozen tenants that offer Filipino, Vietnamese and Mexican dishes, among others. Fresh seafood, meat, fruits, and vegetables are available and can be cooked or prepared on-site.

Newly-Completed Malls, From October 2017 to March 2018

Mall	Developer	Location	Type
Feliz	Ayala Land	Pasig	Regional
Marikina Heights	Ayala Land	Marikina	Neighbourhood
Cloverleaf	Ayala Land	Quezon City	District
W Mall	Walter Mart	Pasay City	Neighbourhood

Source: Colliers International Philippines Research

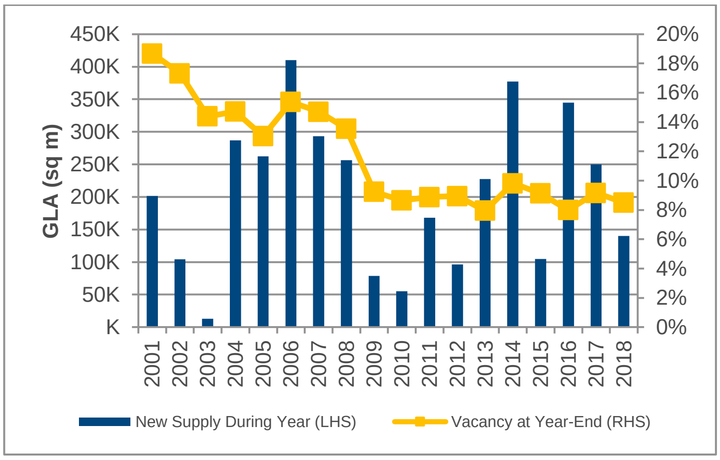
Overall, more than 150,000 sq m (1.5 million sq ft) of leasable space was completed from Q4 2017 to Q1 2018, raising Metro Manila's stock to 6.77 million sq m (72.9 million sq ft) of leasable space from 6.63 million sq m (71.3 million sq ft) in Q3 2017.

Other malls that we expect to open for the remainder of the year are Ayala Malls Circuit in Makati fringe; Big Apple Mall and One Bonifacio High Street in Fort Bonifacio; Blue Wave Mall in Pasay; and the renovation of Robinsons Galleria in Ortigas Center. Between 2019 and 2021 we see the completion of new Ayala malls in the Bay Area and Arca South and the expansion of SM Mall of Asia. Ayala Malls Bay Area and SM Mall of Asia should complement massive office and residential development in the Manila Bay Area. Colliers believes that thriving outsourcing and offshore gambling operations should continue to support retail demand in the burgeoning business district.

Other retail outlets in the pipeline are the 58,000 sq m (624,000 sq ft) mall that will be developed by ALI and Eton Properties within their Parklinks project along C-5 road in Pasig and the renovation of Greenhills shopping mall by 2021.

Overall, Colliers projects at least 110,000 sq m (1.2 million sq ft) of GLA being completed for the rest of the year. From 2019 to 2021, Colliers sees the delivery of at least 200,000 sq m (2.2 million sq ft) of new retail space per annum. We see the new space expanding Metro Manila's stock by 11% to 7.6 million sq m (82 million sq ft) by end-2021 from 6.8 million sq m (73.2 million sq ft) as of Q1 2018.

Metro Manila Retail Vacancy Forecast



Overall vacancy in Metro Manila rose marginally from 8.6% in Q3 2017 to 9.1% in Q1 2018. During the same period, the vacancy in super-regional malls was practically unchanged at 3.9%. The regional malls posted the highest increase in vacancy to 12% from 7.9%. We attribute this to the difficulty in filling the recently-opened retail outlets as well as pockets of vacancies in a number of malls in Fort Bonifacio and Southern Manila area. District centres' vacancy increased from 18.6% to 19.5% but this was offset by the improvement in neighbourhood malls' vacancy from 12.4% to 10.4%.

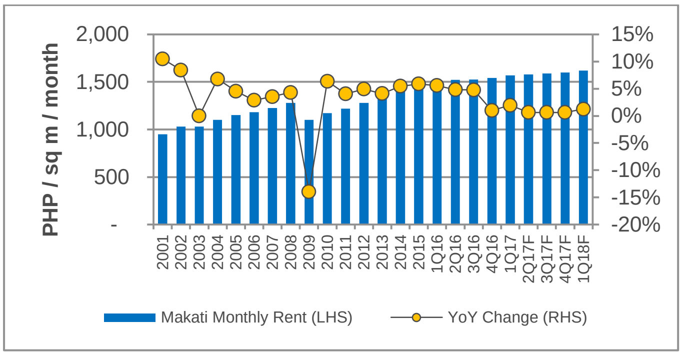
We do not see a substantial rise in vacancy over the next 12 months as we expect a significant amount of vacant space to be occupied for the remainder of the year. Hence, we see overall vacancy in Metro Manila hovering between 8.5% and 9% for the remainder of 2018. From 2019 to 2021, we see an annual vacancy of between 9% and 10% as we expect much of the additional leasable space to be taken up by the major mall operators' anchor tenants. We do not see Metro

Manila retail vacancy breaching the 10% mark during the period.

Rental rate growth slightly picks up

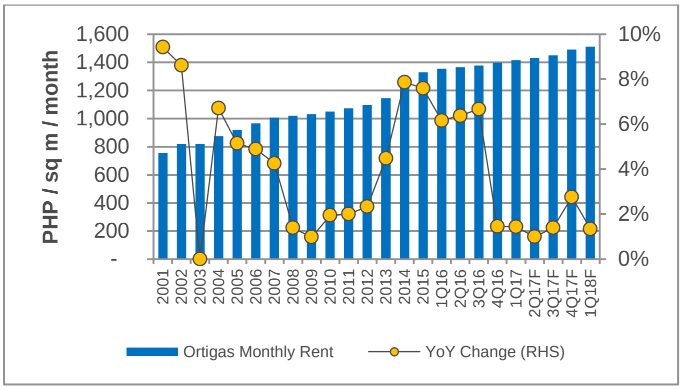
From Q1 2018, Ayala Center rental rates averaged PHP1,620 (USD31.4) per sq m a month, up by 1.3% compared to rental rates in Q4 2017. Meanwhile, average lease rates in Ortigas Center averaged PHP1,510 (USD29.2) per sq m a month in Q1 2018, up by 1.3% compared to Q4 2017 rates.

Makati Monthly Retail Rents



Source: Colliers International Philippines Research

Ortigas Monthly Retail Rents



Source: Colliers International Philippines Research

From 2018 to 2020, we expect retail rates in Ayala and Ortigas Centres to increase between 1% and 2% per year.

Surging foray into e-commerce

Retailers are banking on Filipinos' growing preference for online shopping. Euromonitor International expects online sales in the Philippines to grow faster than store-based retailing over the next few years. This is fueled by millennials owning more than two phones, which expands smartphone penetration and mobile internet access across the country.

SM Prime is launching an online platform that will allow customers to purchase items online but pick up the merchandise from SM's physical stores.

Convenience store chain 7-Eleven has also been aggressive in ramping up its online presence. The firm now allows customers to order online and pick up items in the nearest 7-Eleven branch. The company's rewards system lures more consumers to use its Cliqqshop online selling platform.

This "click and collect" strategy maximizes retailers' online presence but also drives consumer traffic to brick-and-mortar outlets.

Chelsea Logistics of the Udenna Group is also exploring the possibility of developing its own online shopping platform. E-commerce is logistics-intensive and we believe that being in the logistics business should give Chelsea's online platform an advantage over its competitors.

Differentiation-driven expansion

Colliers has observed that a number of malls are being redeveloped and we believe that developers should use the additional space to offer a more interesting retail mix to consumers. Colliers believes that malls under renovation should continue to reflect the image that they've been known for throughout the years as this helps retain consumers. But to attract younger and dynamic mallgoers, developers should aspire for a more curated and exciting offering.

The Greenhills shopping centre, which is up for a redevelopment, is retaining its 'tiangge' or bazaar tenants while accommodating new local and foreign retail concepts. Once completed, the renovated mall would offer both budget-friendly and upscale food halls. It would also house gyms and clinics, cashing in on Filipino consumers' growing propensity to spend on health-related retail.

Colliers believes that malls such as Podium and Powerplant which recently had a major refresh also employed this strategy.

Maximize brick-to-click strategy, augmented reality

Colliers believes that online retailers should use physical stores to reach more potential consumers. To do this, e-commerce platforms should put up pop-up stores in malls across Metro Manila. Zalora recently opened pop-up stores at Glorietta and Greenbelt enabling consumers to shop by trying on the merchandise on display as well thru Zalora's shopping terminal. This synergy between the mall operator and the e-commerce site is no longer surprising given Ayala's acquisition of 49% stake in Zalora Philippines. Colliers encourages other mall operators to maximize their partnership with online shopping sites.

Another trend that online shopping operators should tap is the use of augmented reality. Colliers believes that this strategy should be employed by e-commerce sites to assure customers of the authenticity of the items that are being offered on the internet.

Tourist-centric merchandise and payment schemes

Colliers encourages retail outlets to offer convenient online payment schemes to tourists especially Chinese and Koreans who covered about 40% of the country's total arrivals in 2017.

Robinsons Retail recently rolled out WeChat pay in Robinsons Mall after implementing GCash and PayMaya services. WeChat is the largest social and payment app in China and should lure more Chinese visitors to shop in Robinsons-affiliated retail outlets.

Colliers encourages retailers and mall operators to take advantage of rising expenditures from Korean and Chinese tourists and tweak their offerings based on the foreign visitors' preferences. Data from the Tourism department revealed that average daily spending by Chinese tourists more than tripled to USD224 in 2017 from USD63 in 2016. Mobile payment schemes are becoming more popular among Chinese tourists and Colliers believes that mall operators and retailers should cash in on this growing trend by adopting convenient and secure mobile payment systems.

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