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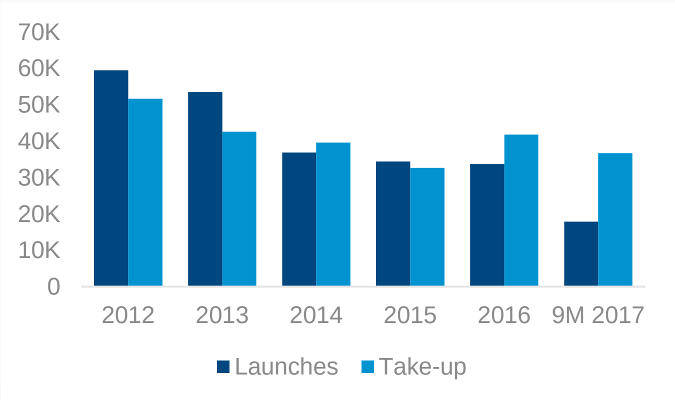
Accelerating success.

No oversupply yet

Dinbo Macaranas Senior Research Manager

Fully-developed CBDs continue to add supply as fringe locations emerge as viable alternatives. Consequently, vacancy across submarkets have gradually risen. Concerns about oversupply has appeared, given declining rental yields and the huge influx of condominium supply in Metro Manila which peaked in 2012, but dragged on until recently. However, Colliers finds three key determinants that assuage fears of an oversupply, namely: (a) the level of condominium take-up is considerably lower than household formation; (b) the remaining inventory life across segments is well-within developers' construction periods; and (c) condo prices continue to increase, characteristic of a market far from any correction. Considering these points, Colliers recommends that developers continue to cater to the growing demand from buyers and tenants, highlighting product advantages including location, structure, finishing and retail presence. Buyers and tenants should keep a keen eye on construction quality, capital appreciation, and rental growth potential as differentiating factors in a market with a huge level of upcoming supply.

Metro Manila Residential Condominium Launches and Take-up (units)



Source: Colliers International Philippines Research

Forecast at a glance

Demand

Take-up in the secondary market still on-line to reach 7,500 units by year-end. For 2018 onward, we expect growth in take-up of at least 3% annually, consistent with household formation.

Supply

About 1,970 units were completed in 3Q 2017. We expect more units to be delivered in the last quarter especially as projects in Manila Bay Area are completed. The year will end with record high completions but 2018 will outperform this year's numbers.

Vacancy

Overall vacancy rate in Metro Manila stands at 12.7%. Colliers expect the vacancy to increase toward year-end. With record upcoming supply, we project vacancy to reach mid-teen levels by 2018 before normalizing in the low double-digit level by 2019.

Rent

RENT

Rents continued to decline in major submarkets albeit modestly at about 1% QonQ. We expect rents to continue declining between 1% to 3% in the coming years as supply grows within and outside major CBDs.

Residential Supply Forecast (units)

LOCATION	AS OF 2016	2017F	2018F	2019F	2020F	2021F	TOTAL
Alabang	3,800	400	1,300	-	-	-	5,500
Araneta Center	4,200	-	300	-	-	-	4,500
Eastwood City	7,500	1,000	-	600	-	100	9,200
Fort Bonifacio	24,300	4,200	8,200	3,000	-	1,000	40,700
Makati CBD	22,100	3,600	1,900	600	300	200	28,700
Manila Bay Area	8,900	5,500	8,500	2,600	2,200	-	27,700
Ortigas Center	16,200	1,500	800	600	600	400	20,100
Rockwell Center	4,200	-	400	800	-	600	6,000
Total	91,200	16,200	21,400	8,200	3,100	2,300	142,400

Source: Colliers International Philippines Research

Completions constrained in Makati and Fort Bonifacio

The supply of condominium units continue to add in Metro Manila's key submarkets. In 3Q 2017, five condominium buildings were completed totalling 1,970 units – all of which are in Makati and Fort Bonifacio. These include Shang Salcedo Place by Kuok Properties, Signa Residences Tower 2 by Robinsons Land, The Meridian at High Street Tower 1 by Ayala Land, and Viceroy McKinley Hill Tower 2 and Paseo Heights by Megaworld. At present, Metro Manila's CBDs have a total of 98,600 units. Based on developer pronouncements, more than 8,700 units will be delivered in the last quarter of the year, although there may be a few slippages to early 2018 due to construction delays.

An extended pipeline to 2021 would push stock to over 142,000 units or 44% higher than current levels. Majority will come from Fort Bonifacio and Manila Bay Area with current stock increasing by 60% and 150% respectively through 2021. Currently, Fort Bonifacio still has the biggest share in total stock among major Metro Manila submarkets with 25,500 or 26% of the total 98,600 units. Meanwhile in Manila Bay Area, close to 11,000 units exists or 11% of total stock in the metro.

Upcoming projects in Fort Bonifacio with significant number of units include The Uptown Parksuites by Megaworld, Verve Residences and Montane at 8th Avenue by Ayala Land and Time Square West by Federaland. In Manila Bay Area, among the notable projects are SM Prime's Shore Residences, Federaland's Six Senses Resort I-Touch Tower and Palm Beach West, and Megaworld's Bayshore Residential Resort.

Vacancy expected to reach mid-teens by year-end

The influx of new supply continues to push vacancy upward. In 3Q 2017, overall vacancy in Metro Manila inched up to 12.7% from 11.7% the previous quarter. All submarkets showed at least 1 percentage point vacancy growths, except Ortigas which was largely flat compared with 2Q 2017. This is understandable considering that supply in the area is essentially unchanged.

We project vacancy to move upward to the mid-teen range by 2018 as we expect 21,400 units to be completed that year, before tumbling back to low double digits by 2019 onward as annual supply normalizes in the 3,000 to 8,000 range. It must also be noted that the supply outside these major CBDs is also growing considerably, adding upward pressure to CBD vacancy.

Comparative Residential Vacancy Rates

LOCATION	2Q 2017	3Q 2017	4Q 2017F
Makati CBD	12.7%	14.1%	14.6%
Fort Bonifacio	14.0%	15.3%	15.8%
Rockwell Center	10.4%	11.5%	11.7%
Ortigas Center	6.7%	6.4%	6.4%
Eastwood City	6.4%	6.7%	6.7%

Source: Colliers International Philippines Research

Comparative Luxury 3BR Residential Rental Rates (PHP / sq m / month)

LOCATION	2Q 2017	3Q 2017	%CHANGE (QoQ)	3Q 2018F	%CHANGE (YoY)
Fort Bonifacio	610 - 1,010	620 - 1,000	-0.1%	530 - 1,060	-1.1%
Makati CBD	540 - 1,080	530 - 1,080	-1.0%	600 - 990	-1.5%
Rockwell Center	760 - 1,010	730 - 1,040	-0.5%	720 - 1,030	-1.0%

Source: Colliers International Philippines Research

Modest decline in rents as prices still on a plateau

The additional supply and rising vacancy have pushed rents down as the rental market has become more competitive. Options within and outside CBDs have increased and have provided alternatives to tenants in the market. Among the three top locations for prime condominium units, Makati showed the biggest decline in rents, albeit still a modest 1.0% decline quarter on quarter to P809 per sq m per month (1.50 USD per sq ft per month). It was followed by Rockwell which declined by 0.50% to P886 per sq m per month (1.65 per sq ft per month) and Fort Bonifacio by 0.12% to P811 per sq m per month (1.51 per sq ft per month).

Among the three locations, Rockwell Center commands the most expensive rent. Understandably, the contained environment of Rockwell Center has largely kept the consistency of products within the area, softening rental impact through time. Meanwhile, the sizeable stock in both Makati and Fort Bonifacio has tightened competition among various developments.

The secondary market prices in major CBDs continued plateauing. Although still in an uptrend, the velocity of capital appreciation slowed down in recent quarters. In 3Q 2017, average prices across Makati, Fort Bonifacio and Rockwell stood at 193,200 per sq m (USD 359 per sq ft), or 1.2% higher than last quarter. The growth was slower than the 2.0% growth in 2Q 2017 and 2.7% in 1Q 2017. Interestingly, the average quarterly growth throughout 2016 was notably faster averaging at 3.6%.

Similar to rents, Rockwell Center prices are the most expensive averaging PHP207,000 per sq m (USD 385 per sq ft). It is followed by Makati CBD at just over P198,000 per sqm (USD 368 per sq ft) and Fort Bonifacio at P173,000 per sq m (USD 321 per sq ft). However, Makati average prices increased faster than the two other locations, growing by over 3% during the period while Fort Bonifacio and Rockwell prices grew conservatively below 1%. We attribute this to the presence of newly launched projects in Makati CBD which are commanding the highest prices in Metro Manila of as much as PHP330,000 per sq m (USD 613 per sq ft).

Has the market reached oversupply yet?

Recently, the market has been characterized by record completions in supply, rising vacancy and declining yields. Although we noted in our last report that Metro Manila yields are still attractive compared to other key Asian cities, fears of an oversupply situation have plagued the market. And given the current market characteristics, it is not surprising to see the oversupply threat persist.

However, a few other factors, particularly on the demand side of the equation would reveal that Metro Manila is still quite far from an oversupply. Colliers notes the following key aspects of the market:

1. Average household formation is growing significantly higher than condominium take-up;

2. Average remaining inventory life across price segments is well-within developers' construction periods; and

3. Condominium prices continue to appreciate at a faster rate, reflecting increasing demand.

Household formation faster than take-up

Within Metro Manila, one of the drivers of residential take-up is household formation. Latest data from the Philippine Statistics Authority show that average household formation in between 2010 to 2015 is approximately 67,200 annually. While this does not include last year's numbers, it is safe to assume that 2016 data would stay within the same range. In comparison, condominium take-up averaged a mere 41,600 units annually.

Household Data in 2010 and 2015, National Capital

Year	Number of Households	Average Household Size
2010	2,759,829	4.3
2015	3,095,766	4.1

Source: Philippine Statistics Authority

Comparative Luxury 3BR Residential Capital Values (PHP / sq m)

LOCATION	2Q 2017	3Q 2017	%CHANGE (QoQ)	3Q 2018F	%CHANGE (YoY)
Fort Bonifacio	110,500 - 236,200	111,600 - 238,600	1.0%	121,800 - 260,400	9.1%
Makati CBD	108,900 - 274,500	110,300 - 277,900	1.2%	122,300 - 308,200	10.9 %
Rockwell Center	188,800 - 226,500	197,200 - 236,600	4.5%	214,400 - 257,300	8.74%

Source: Colliers International Philippines Research

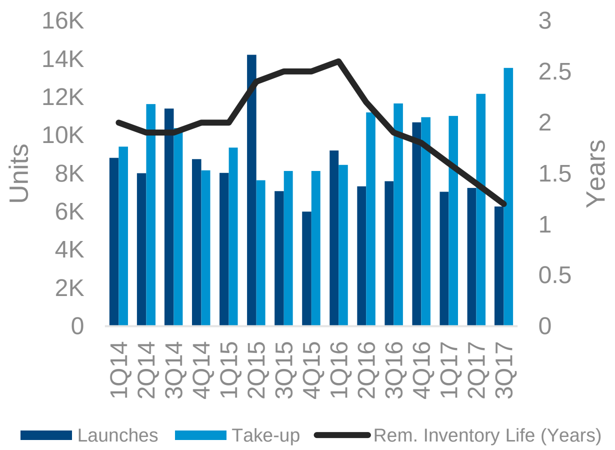
We understand that some families would prefer house and lots, and that some purchases will be for investment purposes rather than own-use, but the over 25,600 units difference is still indicative of a market with room for new projects.

Furthermore, we note that take-up has seen some rebound since last year. The rebound appears to have continued until this quarter as take-up as of September year-to-date has reached 36,700 units, up by 17% versus the same period last year. By contrast, launches have slowed down to 17,900 units, 18% lower than last year's pace. Developers have considerably slowed down the launches since the highest recorded number of 60,000 units in 2012. Thus, demand is evident and the stark decline in launches of late tells us that an oversupply situation is unlikely to happen anytime soon.

Remaining inventory life well-within construction periods

Another factor that reduces the idea of an oversupply is the current remaining inventory life of projects. For Metro Manila condominiums, the overall average remaining inventory life stands at 1.2 years as of 3Q 2017. Contrast this with current construction periods ranging between two and five years, the average remaining inventory life is still at a healthy level. In fact, it has been on a downward trend since the start of 2016, or when the rebound in take-up started.

Metro Manila Condominium Launches, Take-up and Remaining Inventory Life



Source: Colliers International Philippines Research

Many also consider that some price segments are already at an oversupply situation, particularly the economic and affordable units. Latest data proves otherwise, because all price segments have average remaining inventory life of two years or below. Economic and affordable housing, while having the highest levels, show a comfortable average of 2.0 and 1.4 years respectively. Among all price segments, upscale and luxury have the lowest remaining inventory life averaging below one year. Thus, while higher price segments are easily taken up, economic and affordable units are not performing poorly either despite the seeming concentration of supply in these segments.

Capital appreciation means strong demand

We mentioned earlier that secondary prices are plateauing in major CBDs. While this is true, it is interesting to note that prices of pre-selling units continue to increase, especially in areas outside CBDs. Price increases for condominium units launched in the last five years reached as high as 26%. Notable projects in alternative locations with price increases are SMDC's Shore 2 Residences in Manila Bay Area and Trees Residences in Fairview, Ayala Land Premier's Arbor Lanes in Taguig, and CDC Home Development's Riverpark Place in Mandaluyong.

In major submarkets, some of those which also applied price increases are Rockwell's The Proscenium, Kuok Properties' Shang Salcedo Place, and Ayala Land Premier's West Gallery Place.

Note that double-digit increases used to be unusual in the local market. Today, projects from varying developers, located in different areas, catering to a wide range of target segments, are able to increase prices. The flattening of prices in secondary CBD markets are more likely just a shift in the market activity toward growing alternative locations rather than an outright oversupply. Overall, given that prices continue to rise, it seems the market is still far from a drastic correction due to an oversupply situation.

Product differentiation remains key

Despite the record number of project completions, we expect household formation to sustain the demand. Sales take-up remains strong driven by starting families and a growing professional market base. Condominium living has become viable even for older families to serve as second homes or half-way houses amid the Metro's worsening traffic. Other supporting factors include an investor market that is similarly growing, catering to expats, and today's young and dynamic workforce.

Although we recognize that Metro Manila is not in an oversupply situation considering remaining inventory life and impressive levels of capital appreciation, project differentiation remains key to ensure that demand is sustained, as we know that there are still a few projects that are not performing as well. In this kind of market, there are important considerations that developers must be aware of to properly position their projects. Similarly, buyers and tenants should also carefully asses their options to make wise choices. These are the following:

Spot on location

Accessibility is all the more important especially with Metro Manila's traffic situation. As such, proximity to places of work is a major consideration for tenants and buyers alike. Distance to and from CBDs or major thoroughfares may be deal-breakers.

Construction and service quality

The quality of the structure, finishing, design and space offerings and even the reliability of the project management are now considered in the selection of units. As technology in real estate has also improved over time, buyers, investors, and tenants are becoming more meticulous their selection of condominium units.

Reliable track record

Many buyers and tenants are drawn to or alienated by projects based on their previous experience with developers. As such, a reliable track record is all the more important. Furthermore, a positive recommendation can go long way in strengthening brand and project recall.

Retail and Recreation options.

Lifestyle has increased relevance today as the market targets younger members of the population. It is no longer a question of how the unit is built but also the shops that are available and activities that the community can offer.

Capital appreciation potential

In a shifting market, the only constant factor has been capital appreciation. It is good to note how projects are performing in terms of sales, and even the possibility of infrastructure improvements impacting the property. Whether for investment or end-use, the potential of projects to appreciate is key in making that real estate decision.

For more information:
Dinbo Macaranas
Senior Research Manager
+632 858 9047
randwil.macaranas@colliers.com

Joey Roi Bondoc
Research Manager
+632 858 9057
joey.bondoc@colliers.com

Contributors:
David A. Young
Managing Director

Richard Raymundo
Deputy Managing Director

John Rendel Barreda
Research Analyst