Colliers Quarterly

PHILIPPINES | RESIDENTIAL

2Q 2018
08 August 2018

Accelerating success.

Residential demand firm

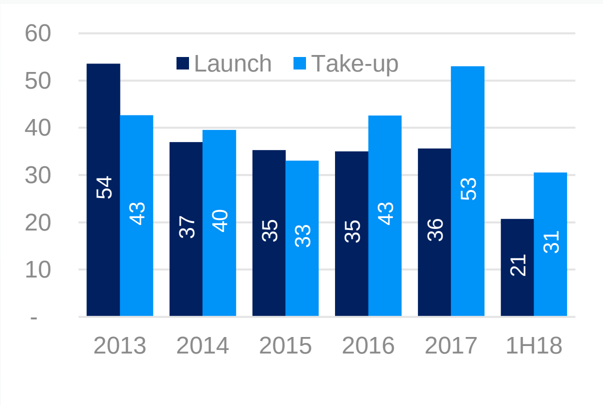
Joey Roi Bondoc Research Manager

The benefits of warmer relations between the Philippines and China are spilling over to the residential sector. Developers have benefited from increasing residential demand from Chinese employees and investors while we see greater potential for partnership between Filipino and foreign developers as Colliers International Philippines has observed more enquiries from firms based in Japan, Hong Kong, and Mainland China.

Leasing of condominiums in the secondary market remains strong resulting in lower vacancy and arresting the decline in rents.

We believe that developers should be on the lookout for possible partnership with foreign developers and build more upscale condominium projects in the Bay Area where demand for high-end properties is rising. Developers should look at housing opportunities in Cebu, Pampanga, and Laguna as offshore gaming firms have started to operate in these locations. Colliers urges developers to focus on timely completion of their projects given delays in the delivery of projects across Metro Manila.

Metro Manila Residential Launches and Take-up (in '000 units)



Source: Colliers International Philippines Research

Forecast at a glance

Demand

The take up for condominium units in the secondary market covering major business districts is sustained by demand from foreign and local professionals working in central business districts (CBDs) as well as Chinese investors and workers employed by offshore gaming companies. As of 1H2018, about 30,000 units have been taken up in the preselling sector. Colliers sees take up breaching the 60,000 mark in 2018.

Supply

Colliers sees the delivery of at least 7,300 units in 2H2018. Manila Bay, Fort Bonifacio, and Rockwell will likely account for 84% of new units in 2H2018. Barring construction delays, we see about 8,600 units being completed annually from 2019 to 2021.

Vacancy

Colliers sees overall vacancy rate in Metro Manila hovering between 11% and 12% by end-2018. From 2019 to 2021, we see vacancy inching up to 12% to 13% per year as the completion of new units accelerates.

Rent

RENT

From 2019 to 2021, Colliers sees flattish to marginal rise in rents. We project lease rates to grow by only 0.3% to 0.5% per annum during the three-year period as we factor in the new supply especially in the Bay Area and Fort Bonifacio.

Residential Supply (units)*

LOCATION	2017	2018F	2019F	2020F	2021F	TOTAL
Alabang	3,800	650	-	-	-	4,450
Araneta Center	4,200	310	-	-	-	4,510
Eastwood City	8,500	-	-	600	120	9,220
Fort Bonifacio	27,400	3,100	5,800	2,700	1,700	40,700
Makati CBD	24,900	710	2,100	700	240	28,650
Manila Bay Area	16,600	4,000	6,200	2,700	-	29,500
Ortigas Center	17,500	-	1,300	200	600	19,600
Rockwell Center	4,200	350	500	300	-	5,350
Total	107,100	9,120	15,900	7,200	2,660	141,980

Source: Colliers International Philippines ; *only covers key business districts, excludes fringe locations

Completion slides

Metro Manila's residential condominium stock reached 108,900 units as of Q2 2018. The projects completed from April to June include Megaworld's One Uptown Residences (North and South Wing) and Ayala Land's Park Terraces Tower 3, delivering a combined 1,500 units.

For the first six months of the year, only about 1,700 units were completed. From about 10,100 units initially scheduled to be completed for 2018, Colliers now sees around 9,000 new units being delivered for 2018. The downward revision is primarily due to construction delays in a number of projects in Fort Bonifacio and Ortigas Center. We see the delivery of about 1,100 units originally intended to be completed in 3Q and 4Q2018 being pushed back to the first half of 2019. We believe that this downward adjustment in supply is positive for the Manila residential sector in general, particularly given the oversupply concerns in the market.

We estimate 84% of the new units to be completed in 2H2018 are scheduled to be in the key business districts – Manila Bay Area, Fort Bonifacio, and Rockwell Center. Among the projects due to be completed during the period are Federal Land's Central Park West and Grand Hyatt Residences; SM Prime's Shore Residences Buildings 3 and 4; and Rockwell Land's The Proscenium Kirov and Sakura Towers.

From 2019 to 2021, Colliers sees the completion of about 25,800 units or 8,600 per year. By 2021, Metro Manila is scheduled to have about 142,000 units, which is 33% higher than the 107,100 units at year end 2017.

Fort Bonifacio will likely account for 40% of the new supply during the three-year period, while the Bay Area will probably account for 35% of the new supply. From 16,600 condominium units in 2017, the Manila Bay Area should offer about 29,500 units by 2021, a 78% increase. The pace of condominium development complements the speed of office construction in the Bay Area.

Metro-wide occupancy improves

The occupancy of residential condominiums offered to the secondary market further improved in 2Q2018. Colliers attributes this to stronger leasing from foreign and local professionals working in CBDs as well as Chinese investors and workers employed by offshore gaming companies.

Comparative Vacancy Rates

LOCATION	1Q 2018	2Q 2018
Makati CBD	12.3%	11.5%
Fort Bonifacio	17.2%	15.8%
Rockwell Center	11.3%	10.3%
Ortigas Center	6.2%	5.4%
Eastwood City	5.8%	5.2%
Manila Bay Area	14.8%	12.9%

Source: Colliers International Philippines Research

Metro Manila vacancy declined to 11.3% from 12.4% in 1Q2018 as major submarkets such as Makati CBD, Ortigas Center, Manila Bay Area, and Rockwell posted lower vacancies.

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

LOCATION	Q1 2018	Q2 2018	% Change (QoQ)	Q2 2019F	% Change (YoY)
Fort Bonifacio	615-1,001	617-1,005	0.4%	620-1,009	0.4%
Makati CBD	530-1,075	540-1,080	0.9%	542-1,084	0.4%
Rockwell Center	726-1,018	728-1,020	0.2%	731-1,024	0.4%

Source: Colliers International Philippines Research

Makati CBD's vacancy in 2Q2018 declined to 11.5% from 12.3% in 1Q2018. Vacancy across Premium and Grade A condominium buildings dropped to 17% and 10%, respectively.

Colliers has observed that condominiums in the fringes of Makati have become very popular among Chinese offshore gaming employees. These residential towers are preferred by Chinese nationals due to their proximity to office buildings that house offshore gaming companies. The ground floor retail of the condominiums has also evolved – now housing a mix of Chinese restaurants, convenience stores, and international coffee chains.

Fort Bonifacio's vacancy dropped further to 15.8% from 17.3% in 1Q2018. Over the past few years, Fort Bonifacio has become the preferred location of multinational outsourcing companies, foreign embassies, and international schools. Aside from sustained demand from expatriates, condominium units in the business hub continue to benefit from a sustained interest from affluent families looking for residential units to stay and invest in. Chinese investors are also drawn to the business hub due to its proximity to Manila International Airport and the presence of international schools. The transfer of the Philippine Stock Exchange operations to Fort Bonifacio should also have a positive impact on Fort Bonifacio's residential towers.

From 14.8% in Q1 2018, the Manila Bay Area's vacancy dropped to 12.9% in Q2. The business district continues to benefit from strong demand from Chinese nationals employed by offshore gaming firms in the area. A mix of local and foreign investors have also purchased completed condominium units in this business hub. Some investors lease their units to Chinese employees or locals working for outsourcing companies, hotels, and typical firms operating within the Bay Area.

Rockwell's vacancy during 2Q2018 dropped to 10.3% from 11.3%. Condominium units in Rockwell Center continue to benefit from stable demand from expatriate families drawn to the residential enclave's community environment.

Throughout 2018, we expect Metro Manila vacancy to hover between 11% to 12% given the strong demand. This is lower than our initial projection of about 12% to 13%. Aside from sustained demand across the country's capital, Colliers attributes the lower vacancy to the drop in projected delivery of new condominium units for the rest of 2018. From 2019 to 2021, we see vacancy inching up to 12% to 13% per year as the completion of new units picks up.

Rents recover

Improved occupancy in condominium projects across Metro Manila has helped arrest the decline in rents.

Average rents in prime three-bedroom units in Makati CBD recorded a 0.9% increase to PHP540-1,080 (USD10.2 to 20.4) per sq m a month from PHP530 - 1,075 (USD10 to 20.3) in 1Q2018. Monthly lease rates in Fort Bonifacio and Rockwell also rose by 0.4% and 0.2%, respectively. Despite the slow recovery in rents, 2Q2018 results indicate that lease rates have picked up and arrested the decline in rents recorded in the past four quarters.

Prime condominium units in Rockwell Center still command the highest rental rate averaging PHP874 per sqm per month (USD16.40 per sq m per month). This is followed by Fort Bonifacio at PHP811 per sqm per month (USD15.20 per sq m per month) and Makati CBD at PHP810 per sqm per month (USD15.20) per sq m per month.

Colliers sees an increase in lease rates of between 0.5% and 1% for 2H2018. From 2019 to 2021, Colliers expects flat to marginal rise in rents for the three business districts. We project lease rates to grow by only 0.3% to 0.5% per annum during the three-year period as we factor in the new supply especially in Fort Bonifacio.

Prices continue to rise

Capital values continue to increase with average prices of prime three-bedroom units in the secondary market ranging between PHP118,000 and PHP301,000 (USD2,280 and USD5,660) per sq m. Fort Bonifacio units recorded the fastest increase in 2Q2018 at 2.9%. Prices of prime three-bedroom units Makati CBD reached PHP121,000 to PHP 301,000 per sq m (USD2,280 to USD5,660), rising by 2.8% QoQ.

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

LOCATION	Q1 2018	Q2 2018	%CHANGE (QoQ)	Q2 2019F	%CHANGE (YoY)
Fort Bonifacio	114,000 – 244,000	118,000 – 252,000	2.9%	121,000 – 259,000	3.0%
Makati CBD	115,000 – 295,000	121,000 – 301,000	2.8%	125,000 – 310,000	3.0%
Rockwell Center	196,000 – 241,000	199,000 – 246,000	1.9%	206,000 – 254,000	3.2%

Meanwhile, Rockwell Center prices rose by nearly 2%. From 2019 to 2021, Colliers sees condominium prices rising by an average of 3% to 3.5% per year. We see Rockwell Center posting the fastest growth in prices during the period at 3.0% to 3.5% per year while acceleration of prices in Fort Bonifacio should slow to about 2.5% to 3% due to the significant number of units scheduled to be delivered during the period.

Colliers believes that the continuous increase in capital values in the secondary market is not surprising as pre-sales prices have also been reaching record-highs. At present, the most expensive condominium in Metro Manila is now priced close to PHP400,000 per sq m (USD5,700). The PHP400,000 per sq m-mark is likely to be breached with upcoming high-profile projects designed by prominent architects. SM Prime is partnering with Federal Land to build a luxury residential project on a 3,500-sq m lot between Ritz Towers and Discovery Primea along Ayala Avenue in Makati CBD. The project could possibly breach the PHP400,000 per sq m average price of Ayala's Park Central Tower.

New record-high

Colliers has also observed price increases among pre-sales projects. This is mainly propelled by strong take up figures in the pre-selling or primary market which covers projects in both business districts and fringe areas. As of 1H2018 pre-sales reached over 30,000 units, higher than the 23,000 units recorded in the same period in 2017. Given the current trend, the 2018 take up for pre-selling condominium units might even surpass the 53,000 units sold in Metro Manila in 2017, a record-high.

Leasing units to target Chinese

Colliers recommends that developers with significant ready-to-occupy units, especially in the fringes of established business hubs, to specifically target the Chinese employees of offshore gaming firms. Condominium projects in the Makati fringe are particularly popular among these employees. Hence, developers with completed projects in the area should zero in on this opportunity.

Luxury market to remain strong

Colliers International Philippines believes that luxury condominium demand should remain strong due to Metro Manila having one of the most attractive rental yields in the region; relatively low prices; and sustained demand from affluent Filipinos, foreign investors, and offshore gambling firms. The luxury market in the country's capital is relatively small but demand has been stable over the past few years. The projects being leased out or sold to the secondary market continue to receive strong demand. This entices affluent locals and foreign investors to look for similar developments in Metro Manila. In fact, the pent-up demand encourages mid-income condominium developers to scale up and construct high-end projects in emerging business districts such as the Manila Bay Area.

More affluent locals are seeing luxury condominium projects as a viable investment option aside from the stock market. The shift in lifestyle also encourages the high-end investors and end-users from posh villages to embrace condominium living.

Projects by Ayala Land, Rockwell, Ortigas & Co., and Robinsons Land are recording strong take up. These developers' luxury projects are about 70% to 95% sold after being launched one to four years ago.

More upscale in the Bay Area

We think developers with parcels of land in the Bay Area should consider building residential towers that cater to the upscale and high-end markets. Condominium units that target these markets are those priced at PHP6 million (USD112,000) and up. Colliers believes that the Bay Area is an attractive location for wealthy families from Southern Luzon and cities in Metro Manila that are upgrading to condominium living. The Bay Area is an attractive location due to its proximity to Manila International Airport and ease of access to other business hubs across the country's capital.

Demand spills outside Manila

Colliers sees Chinese employees and investors playing a major role in sustaining the Metro Manila residential demand. Colliers has observed the offshore gaming firms from China continuing to occupy office space in the country's capital. This trend should sustain not just the office sector but also the Manila condominium market which provides support to offshore gaming operations in CBDs and their peripheries. Major developers such as Ayala Land and SM Prime have attributed higher international sales to strong demand from Chinese investors.

We see the offshore gaming sector's impact on the residential sector spilling over to areas such as Cebu, Pampanga, and Laguna as these firms have started to occupy office space in these key locations. Colliers encourages developers to capture opportunities in these areas by exploring the type of residential component, condominiums or condormitel (condominium units operated as dormitories,) which are favourable to this tenant profile.

Partnership with foreign firms

Over the past few months we have seen the launch of a number of residential projects inside and outside of Metro Manila between foreign companies and Filipino firms. Hankyu Realty Co., Ltd. has teamed up with P.A. Alvarez Properties for the development of a PHP656-million (USD12.3 million) affordable housing project in Dasmariñas, Cavite; Mitsui Fudosan and Rockwell partnered for the PHP9 billion (USD169 million) Arton project in Katipunan, Quezon City; while Nomura Real Estate Development Co. Ltd. and Isetan Mitsukoshi Holdings Ltd. teamed up with Federal Land for the construction of a PHP20 billion (USD376 million) retail and residential complex in Bonifacio Global City.

We see this trend being sustained as Colliers Philippines has been receiving queries from firms based in Japan, Hong Kong and Mainland China planning to tie up with local developers.

Gross yields for property investments in the country are among the most attractive in the region and this encourages foreign companies to be more aggressive in partnering with local firms for various residential projects.

Colliers believes that local and foreign companies mutually benefit from joint venture projects. While foreign firms are enticed by high yields derived from Philippine projects, local developers can improve their brand image by partnering with prominent foreign brands known for their precision and high architectural and engineering standards.

Hence, Colliers recommends that developers be on the constant lookout for potential JV deals with foreign developers.

For more information:
Joey Roi Bondoc
Research Manager
+632 858 9057
joey.bondoc@colliers.com

Contributors:
David A. Young
Chief Operations officer

Richard Raymundo
Managing Director

Donica Cuenca
Research Analyst

Colliers INTERNATIONAL
Accelerating success.