



**Joey Roi Bondoc**

Manager | Research | Philippines  
+632 858 9057  
[Joey.Bondoc@colliers.com](mailto:Joey.Bondoc@colliers.com)



**Dom Fredrick Andaya**

Director | Office Services | Philippines  
+63 917 831 6725  
[Dom.Andaya@colliers.com](mailto:Dom.Andaya@colliers.com)

# PEZA DILEMMA

Lack of Philippine Economic Zone Authority proclaimed space stymies occupiers

## Summary & Recommendations

Both business and knowledge process outsourcing firms drove leasing in 2018, and we see this trend continuing in 2019 with demand from these occupiers and flexible workspace operators.

The demand from outsourcing firms, however, may be curtailed by the slow release of Philippine Economic Zone Authority (PEZA) proclamations.

Colliers urges developers to:

- > implement strategic land banking near Manila subway stations
- > push PEZA zone applications
- > target non-outsourcing tenants while PEZA applications are pending

Meanwhile, flexible workspace operators should aggressively differentiate their offerings.

	Q4 2018	Full Year 2019	2018-21 Annual Average
 <p><b>Demand</b></p> <p>&gt; Colliers projects a net take-up of about 1 million sq m (10.7 million sq ft) in 2019 due to sustained demand from outsourcing and offshore gaming firms. We project a diversified tenancy mix from 2019 to 2021.</p>	 <b>372,000 sq m</b>	 <b>1mn sq m</b>	 <b>900,000 sq m</b>
 <p><b>Supply</b></p> <p>&gt; Manila Bay Area, Ortigas Center, and Fort Bonifacio should cover 53% of the new supply in 2019.</p>	 <b>380,100 sq m</b>	 <b>1.2mn sq m</b>	 <b>950,000 sq m</b>
	<b>QOQ / End Q4</b>	<b>YOY / End 2019</b>	<b>Annual Average Growth 2018-21 / End 2021</b>
 <p><b>Rent</b></p> <p>&gt; From 2018 to 2021, Colliers is retaining its earlier projection of an 8.0% annual rise in office rents due to high quality new supply and a tight market during the period.</p>	 <b>1.6%</b> <b>PHP942</b>	 <b>8.0%</b> <b>PHP1,020</b>	 <b>8.0%</b> <b>PHP1,200</b>
 <p><b>Vacancy</b></p> <p>&gt; Colliers sees vacancy at about 5% from 2019 to 2021 as we see demand moving in step with the new supply.</p>	 <b>-0.1pp</b> <b>4.7%</b>	 <b>+0.3pp</b> <b>5.0%</b>	 <b>+0.0pp</b> <b>5.0%</b>

Source: Colliers International  
Note: USD1 to PHP53 as of end-Q4. 1 sq m = 10.76 sq ft

## RECOMMENDATIONS

### In light of the current market, Colliers recommends the following measures:

#### Accelerated PEZA proclamation and ex-Manila expansion

Colliers encourages the government to expedite the approval of PEZA applications to sustain the outsourcing sector's growth. In our opinion, stakeholders such as developers and qualified occupants should aggressively call for the proclamation of new PEZA spaces in Metro Manila and provincial areas.

BPO tenants have been looking for PEZA-proclaimed spaces in areas outside Metro Manila to enjoy tax and non-tax incentives. We believe that among the more viable alternative sites are Cavite, Cebu, Bacolod, Iloilo, Clark, and Davao. Vista Hub BPO Molino in Cavite was recently proclaimed a special economic zone.

#### Target non-outsourcing tenants

Colliers encourages developers with pending PEZA applications to start targeting traditional and non-BPO firms that have been expanding across Metro Manila. The country's budget secretary is expecting GDP growth of 7% to 8% from 2019<sup>1</sup>. This, combined with a strong macroeconomic backdrop, should support the expansion of these businesses and eventually compel these firms to occupy larger offices.

#### Lock-in pre-leasing rates and space in new office buildings

We see take-up from traditional (non-outsourcing tenants including flexible workspace operators and government agencies) and outsourcing firms to remain strong. Occupants with immediate office space requirements should consider new buildings that we project to be completed in Fort Bonifacio, Ortigas Center, and Manila Bay area in the next 12 months.

#### Consider new space in Quezon City

Office space in Quezon City is about 20% to 30% cheaper compared to space in the Makati CBD, Manila Bay Area, and Fort Bonifacio. Aside from cheaper lease rates, Colliers encourages cost-conscious tenants to consider Quezon City as the area's proximity to Caloocan, Malabon, Navotas, and Valenzuela (CAMANAVA) region and the Bulacan areas makes it an attractive area especially for outsourcing firms looking to tap the labour pools in Northern Metro Manila and Central Luzon.

#### Flexible workspace operators should differentiate

Given the stiff competition in the market, Colliers encourages flexible workspace operators to differentiate and consider incorporating wellness and lifestyle classes as well as food and beverage outlets. In our opinion, the concept of co-living is something that operators should seriously consider offering in 2019. Flexible workspace operators should be more open in partnering with developers of hotels, malls, residential towers, and condominiums marketed to professionals.

## EXCEEDING EXPECTATIONS

Colliers recorded more than 370,000 sq metres (4 million sq feet) of net take-up in Q4 2018 outpacing our initial projection of 344,000 sq metres (3.7 million sq feet). The figure is 31% higher yoy. Total net take-up for 2018 reached 1.18 million sq metres (12.7 million sq feet), a record-high for Metro Manila and exceeding our initial projection of 1.15 million sq metres (12.4 million sq feet).

Colliers expects the strong demand to continue in 2019 as buildings we project to be completed over the next 12 months are about 28% pre-leased as of Q4 2018. Based on Q4 2018 pre-commitment status, we expect Alabang, Makati CBD, Fort Bonifacio, and the Bay Area to record the strongest take-up in 2019. For 2019 to 2021, we project net take-up to average around 900,000 sq metres (9.69 million sq feet) per annum.

We project demand moving in step with new supply. Over the next 12 months, Colliers sees the delivery of nearly 1.2 million sq metres (12.9 million sq feet) of new office space and net take-up of about 1 million sq metres (10.7 million sq feet). This should yield a vacancy of 5.0% by end-2019.

<sup>1</sup> Cigaral, Ian Nicholas. "Diokno: 2018, 2019 economic growth targets doable." Philstar.com. 8 January 2019

Office supply forecast, GLA (sq metres)

	As of 2018	As of 2021	% Change
Makati CBD	3,283,300	3,569,900	9%
Makati Fringe	320,000	482,700	51%
Fort Bonifacio	2,152,500	2,597,300	21%
Ortigas Center	1,722,000	2,339,100	36%
Ortigas Fringe	503,100	531,200	6%
Bay Area	673,200	1,157,500	72%
Alabang	633,300	800,200	26%
Quezon City*	1,309,300	1,837,800	40%
Others**	393,000	548,500	40%
Total	10,989,700	13,864,200	26%

Source: Colliers International

\*Includes Araneta Center, C-5 Corridor, Eastwood City, and North EDSA Triangle

\*\*Manila and other fringe locations

## KPOs TO FUEL DEMAND

Knowledge Process Outsourcing (KPO) firms led the demand from outsourcing occupants, covering 27% of net take-up in 2018 or about 381,000 sq metres (4.1 million sq feet). (see graph)

Among the KPO companies that occupied space in Q4 2018 are Infosys and AECOM.

Colliers sees the KPO sector driving office demand in the next 12 months. KPOs provide higher-value outsourcing services such as health information management, software engineering, and finance and accounting. The entry and expansion of Amazon and Google indicates that Metro Manila is able to successfully compete for major KPO business.

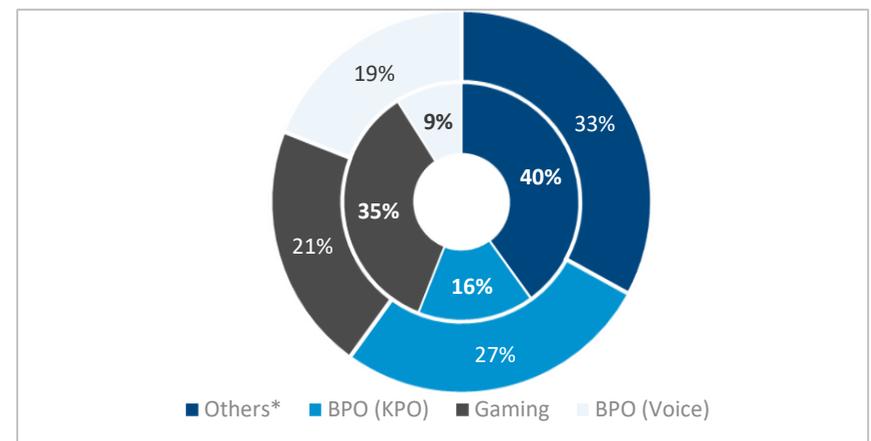
## QUEZON CITY SURPRISES

In Q4 2018, Quezon City accounted for 40%, or 152,000 sq metres (1.6 million sq feet), of new office supply in Metro Manila. This is the first time in 11 quarters that Quezon City accounted for the bulk of new supply in Metro Manila. Among the new buildings in Quezon City are Araneta Cyberpark Tower 2 by Araneta Center Inc. (70,500 sq metres or 759,000 sq feet).

Also in Quezon City, Vertis BPO Phase 3 by Ayala Land Inc., (39,800 sq metres or 428,400 sq feet), Robinsons Zeta Tower by Robinsons Land (34,500 sq metres or 371,000 sq feet) and Mpire Center by Mpire Development Corporation (7,400 sq metres or 80,000 sq feet). Araneta Center accounted for 60% of Quezon City’s new office stock with Vertis North covering 34%.

The delivery of new buildings indicates the growing interest in Quezon City. Colliers sees more aggressive development after the groundbreaking for the first three subway stations (Quirino Highway Station, Mindanao Avenue Station, and North Avenue Station), completion of Metro Rail Transit 7 (MRT7), as well as clarification from the local government regarding offshore gaming operations.

Breakdown of office transactions 2017 (Inner Circle) vs 2018 (Outer Circle)



Source: Colliers International

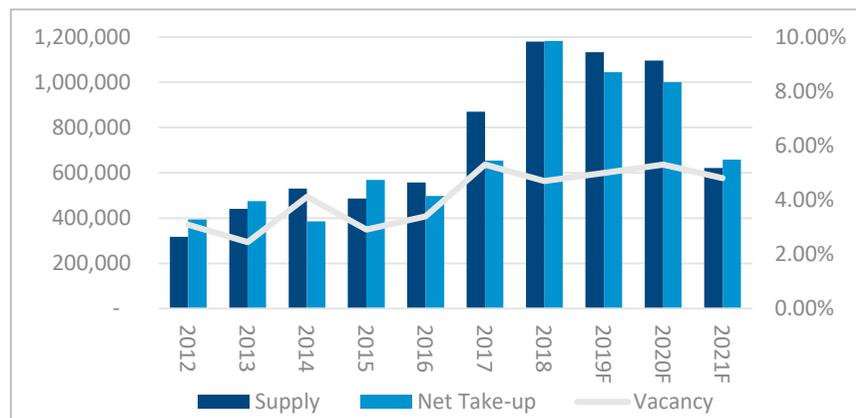
\*Others segment includes traditional firms, government agencies, and flexible workspace operators

## HEALTHY PIPELINE TO 2021

From 2019 to 2021, Colliers estimates the completion of 950,000 sq metres (10 million sq feet) annually. The figure is more than double the 450,000 sq metres (484,400 sq feet) of new supply completed per year from 2012 to 2016.

During the three-year period, Colliers expects Fort Bonifacio, Ortigas Center, and Manila Bay Area to account for 54% of the new supply.

Metro Manila office vacancy forecast (sq m)



Source: Colliers International

## VACANCY OF BELOW 6.0%

Metro Manila recorded a vacancy of rate of 5.0% in 2018 which is in line with Colliers initial forecast. The sustained take-up from a diversified group of occupants should keep vacancy at around 5.0% over the next 12 months. Office space due to be completed over the next 12 months is 28% pre-leased as of end-2018.

## RENTS CONTINUE TO RISE

Prime and Grade A office space in the Makati CBD and Fort Bonifacio continue to command the most expensive rents, ranging from PHP930 (USD17.5) per sq metre to PHP1,900 (USD35.9) per sq metre as of Q4 2018.

From 2019 to 2021, Colliers expects average rents across Metro Manila to rise by 8.0% per annum on average as we project a tight market during the period. The continued take-up of space from KPO firms that locate in new, high quality office space and offshore gaming firms willing to pay a premium to occupy space should sustain a healthy increase in lease rates.

## Primary Author:

### Joey Roi Bondoc

Manager | Research | Philippines

+632 858 9057

[Joey.Bondoc@colliers.com](mailto:Joey.Bondoc@colliers.com)

## For further information, please contact:

### David A. Young

Chief Operating Officer | Philippines

+632 858 9009

[David.A.Young@colliers.com](mailto:David.A.Young@colliers.com)

### Richard Raymundo

Managing Director | Philippines

+632 858 9028

[Richard.Raymundo@colliers.com](mailto:Richard.Raymundo@colliers.com)

### Dom Fredrick Andaya

Director | Office Services | Philippines

+63 917 831 6725

[Dom.Andaya@colliers.com](mailto:Dom.Andaya@colliers.com)

### Arren Faronilo

Senior Analyst | Research | Philippines

+632 858 4116

[Arren.Faronilo@colliers.com](mailto:Arren.Faronilo@colliers.com)

### Donica Cuenca

Analyst | Research | Philippines

+632 858 9068

[Donica.Cuenca@colliers.com](mailto:Donica.Cuenca@colliers.com)

---

#### About Colliers International Group Inc.

[Colliers International Group Inc.](#) (NASDAQ: CIGI) (TSX: CIGI) is a top tier global real estate services and investment management company operating in 69 countries with a workforce of more than 13,000 professionals. Colliers is the fastest-growing publicly listed global real estate services and investment management company, with 2017 corporate revenues of \$2.3 billion (\$2.7 billion including affiliates). With an enterprising culture and significant employee ownership and control, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide, and through its investment management services platform, has more than \$25 billion of assets under management from the world's most respected institutional real estate investors.

Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice to accelerate the success of its clients. Colliers has been ranked among the top 100 global outsourcing firms by the International Association of Outsourcing Professionals for 13 consecutive years, more than any other real estate services firm. Colliers is ranked the number one property manager in the world by Commercial Property Executive for two years in a row.

Colliers is led by an experienced leadership team with significant equity ownership and a proven record of delivering more than 20% annualized returns for shareholders, over more than 20 years.

For the latest news from Colliers, visit our [website](#) or follow us on   

#### Copyright © 2019 Colliers International

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

