

Cebu On the Radar

Landlords seize opportunities as Cebu remains a post-Covid option

Insights & recommendations

Colliers saw Metro Cebu recording positive net office absorption in Q1 2021, ending two consecutive quarters of negative net take up.

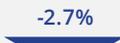
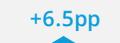
Among the deals recorded in Q1 2021 include those from the outsourcing and traditional segments*, occupying new office spaces in Cebu Business, IT Parks and Mandaue.

Metro Cebu tenants and landlords believe that a successful roll out of the Covid vaccine will play a pivotal role in the recovery of office leasing, our expectation is that a demand recovery will start between Q4 2021 and Q1 2022.

Colliers encourages tenants to take advantage of favorable market trends and maximize lower rents in exchange for longer lease terms while assessing post-pandemic options, including a hybrid of on site and working from home. Meanwhile, landlords should highlight availability of PEZA** spaces and Cebu's competitiveness[†] to expanding outsourcing firms.



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	Q1 2021	Full Year 2021	2021-25 Annual Average
 <p>Demand</p> <p>Metro Cebu office posted positive net absorption in Q1 2021, ending the two consecutive quarters of negative net take-up. Demand was mainly driven by outsourcing and traditional occupiers*. We see demand slowly recovering by the end of 2021, depending upon the pace of the vaccine roll out.</p>	 <p>8,300 sq metres</p>	 <p>33,000 sq metres</p>	 <p>62,600 sq metres</p>
 <p>Supply</p> <p>From 2021 to 2025, we see the annual completion of about 88,800 sq metres (955,500 sq feet) of new office space, up 8% from our previous forecast of 81,900 sq metres (881,200 sq feet) at the end of 2020. Cebu Business and IT Parks are likely to account for 44% of the new supply during the period.</p>	 <p>50,600 sq metres</p>	 <p>156,400 sq metres</p>	 <p>88,800 sq metres</p>
	QOQ / End Q1	YOY / End 2021	Annual Average Growth 2020-25 / End 2025
 <p>Rent</p> <p>Despite occupiers in Cebu continuing to exercise pre-termination, lease cancellations and non-renewals due to the uncertain business environment, demand was still positive. We expect a 10% correction in lease rates in 2021 before a slow recovery starting 2022.</p>	 <p>-2.7% PHP618</p>	 <p>-10.0% PHP572</p>	 <p>+0.4% PHP650</p>
 <p>Vacancy</p> <p>Colliers sees vacancy rising through 2021 as traditional and outsourcing occupiers continue to rationalize office space amidst substantial new supply coming online. Our projected 26.4% vacancy in 2021 is a new all-time high for Cebu since we started tracking in 2007.</p>	 <p>+2.1pp 22.0%</p>	 <p>+6.5pp 26.4%</p>	 <p>+0.0pp 20.2%</p>

Source: Colliers

Note: USD1 to PHP48 as of the end of Q1 2021. 1 square m = 10.76 square ft. *Traditional occupiers include companies in various sectors such as legal, engineering and construction, government agencies and flexible workspace operators. †Based on Tholons' 2021 survey, among the criteria include talent, cost, innovation and capital and business catalyst. **The Philippine Economic Zone Authority is also known as PEZA.

Recommendations

Continue monitoring government's anti-COVID initiatives

Landlords and tenants should continue monitoring the government's vaccination programs. The national government has included Business Process Outsourcing (BPO) employees as a priority group for inoculation¹. In our view, this should provide a much-needed support to the employees of the BPO sector, which continues to be a major occupier of office space in Metro Cebu. At present, Metro Cebu has an estimated 160,000 BPO employees², the largest outside of Metro Manila.

Tenants to take advantage of opportunity to negotiate

Given the 156,400 sq metres (1.7 million sq feet) of new supply likely to be completed in 2021, Colliers encourages tenants to maximize favorable market trends by negotiating longer lease terms, lower rates and other forms of concessions such as delayed escalation of rents, fit-out financing, rental deferment, longer fit-out periods and other incentives. Companies in Metro Cebu with long-term lease plans should also maximize the opportunity to transfer to higher quality buildings in major business districts at a discount.

Highlight availability of PEZA space

One major reason why outsourcing firms continue to keep Metro Cebu on their radars is the availability of PEZA-proclaimed office space. From 2021 to 2023, Colliers sees about 109,000 sq metres (1.2 million sq feet) of new PEZA-proclaimed office space. Among the PEZA buildings due to be completed during the period include Filinvest Cebu Cyberzone 3 and 4 and Skyrise 3B in Cebu IT Park, JEG Tower and Latitude Corporate Center in Cebu Business Park; and The Mactan World Museum and Mahi in Mactan.

Highlight Cebu's advantage over other locations, viability for higher-value outsourcing

Colliers believes that Cebu remains a preferred business destination outside Metro Manila due to its competitiveness in terms of manpower, infrastructure, and cost of doing business. Based on the results of Tholons' 2021 survey³ of the 100 most attractive outsourcing sites in the world, Cebu ranked 52nd. Among Tholons' criteria are talent, skill and quality, business catalyst, cost and infrastructure, and innovation and capital. In our view, Metro Cebu will likely remain a viable destination for firms looking to open space outside of Metro Manila beyond this Covid-affected period, even for higher-value outsourcing services such as healthcare and technology firms. Among the firms operating knowledge process outsourcing (KPO) in Metro Cebu are Google, Tech Mahindra and Kuehne+Nagel.

Short-term options to assess post-Covid operations

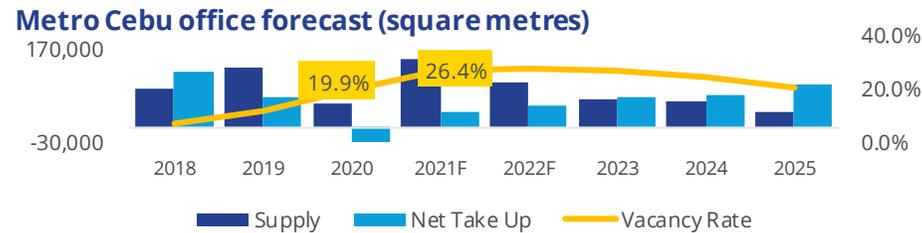
Colliers believes that firms taking a wait-and-see approach to assessing their future options should consider short-term leases. In our view, this approach can tide them over during the coming 1- to 2-year period. They may opt to renew short-term or sign up in flexible workspaces to minimize capital expenditures and save on operating expenses. Among the locations with a substantial amount of vacant serviced offices are Cebu Business and IT Parks.

Cebu Business and IT Parks to dominate new supply

In Q1 2021, Colliers saw the completion of about 50,600 sq metres (544,500 sq feet) of new office space. Among the new buildings that were completed include Orion Corporate Center in Mandaue with a gross leasable area (GLA) totaling 25,500 sq metres (274,400 sq feet) and Cebu Exchange Phase 1 in Cebu IT Park with 25,100 sq metres (270,100 sq feet).

In 2021, we project new supply in Metro Cebu reaching 156,400 sq metres (1.7 million sq feet), down 3% from our previous forecast at the end of 2020 due to Covid-induced delays and low pre-commitment levels in upcoming buildings.

From 2021 to 2025, we expect the annual completion of about 88,800 sq metres (955,500 sq feet). Cebu Business and IT Park are likely to account for about 44% of the new supply during the period. Among the new office buildings due to be completed within the period are JEG Tower, Latitude Corporate Center, Cebu Exchange Phase 2, Skyrise 3B and Johndorf Tower.



Source: Colliers

Record high vacancy in 2021

In Q1 2021, Colliers saw office vacancy in Metro Cebu rising to 22% from 19.9% at the end of 2020. The rise in vacancy was due to higher lease cancellations, pre-terminations, non-renewals and new supply of about 50,600 sq metres (544,500 sq feet) that was completed during the period.

Among the submarkets, Cebu Business Park, IT Park and Mactan posted substantial vacancies, at 21%, 24% and 38%, respectively.

In 2021, we project net take-up to reach 33,000 sq metres (355,100 sq feet), with new supply at 156,400 sq metres (1.7 million sq feet). This should result in vacancy further rising to 26.4%, which would be a new all-time high for Metro Cebu.

Colliers recorded about 10,800 sq metres (116,200 sq feet) of office deals in Q1 2021, this is 154% higher compared to the 4,300 sq metres (46,300 sq feet) posted

In Q1 2020. About 64% of the deals came from outsourcing firms, followed by traditional occupiers at 34%.

Despite the challenges, the IT and Business Process Association of the Philippines (IBPAP) said that the outsourcing sector still posted employment growth in 2020 of about 23,000 people, bringing the total to 1.32 million. This was primarily due to more jobs created by resilient industries such as e-commerce and healthcare, in Metro Manila as well as Cebu.

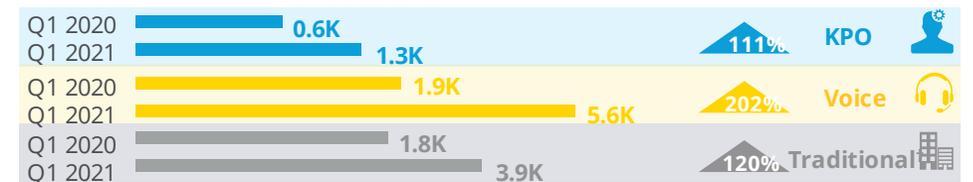
Notable office deals recorded in Q1 2021 came from outsourcing and traditional companies including 24/7 InTouch Philippines, Aldesa BPO, Nokia and the Philippines Department of Human Settlements and Urban Development (DHSUD). The bulk of these transactions were in Cebu Business Park.

Slow rental recovery starting 2022

Metro Cebu average office rents declined by 2.7% QOQ in Q1 2021. Colliers expects a further correction in lease rates especially in submarkets with substantial vacancies such as Cebu Business Park, IT Park and Mactan. However, we believe that pent-up demand post-COVID will likely gravitate towards these locations due to the wide availability of PEZA-registered and fully-fitted spaces. Outsourcing and traditional firms can take advantage of the discounts offered in the market in exchange for longer lease terms.

In 2021, Colliers sees lease rates dropping by about 10% before a slow recovery starting 2022. In our opinion, office leasing recovery in Metro Cebu will likely depend on the success of the vaccine roll out.

Metro Cebu office transactions



Source: Colliers; [†]Traditional occupiers includes companies in various sectors such as legal, engineering and construction, government agencies and flexible workspace operators.



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