PHILIPPINE PROPERTY OUTLOOK:

Gearing up for an economic rebound in 2021

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Summary & Recommendations

Colliers believes that developers should continue to adapt to the evolving preferences of investors and tenants to survive in a property market that has been redefined by the pandemic.

In our opinion, developers should continue converting and repurposing assets to take advantage of opportunities brought about by a lockdown economy. We recommend that developers and tenants continue to monitor opportunities in the market especially with the government-projected economic rebound in 2021. In our view, office landlords should be proactive in offering alternative leasing schemes to tenants while mall operators and retailers should ramp up omnichannel strategies to take advantage of pent up demand. Condominium developers should be on the lookout for attractive sites and price segments.

		Rental Market	Vacancy	Supply
Office	> Colliers projects new supply to reach 632,600 sq m (6.8 million sq ft) (+64% YOY) and a net take-up of about 250,000 sq m (2.7 million sq ft) (+213% YOY) in 2021. We see vacancy rising to 11.6% with rents treading a slow path to recovery of 2%.	2%	11.6%	632,600 sq m
Residential	> We project delivery of 7,270 new units in 2021, up 21% from 6,000 units in 2020. More than 75% of the upcoming supply will likely come from the Bay Area as selected projects in 2020 were delayed to 2021 due to temporary work stoppages.	2.1%	13.5%	7,270 units
Retail	> Colliers sees the delivery of about 304,700 sq m of new retail space in 2021. We project vacancy to reach 13% as we see a rebound in consumers' confidence and purchasing power. Lease rates should continue to drop by about 2% in 2021.	-2.0%	13%	304,700 sq m
Industrial	> We see a more active take-up in 2021 and 2022 due to manufacturing and logistics investments. Colliers expects warehouse lease rates growing at a faster rate than land leasehold given the growth of e-commerce and online deliveries.	5.2%	6.4%	120ha*

		Average Daily Rate (ADR)	Occupancy Rate	Supply
Hotel	> We see the completion of about 2,100 rooms in 2021. The increase in hotel supply as well as subdued foreign arrivals due to the pandemic should keep occupancy rates at sub-50% levels even at the end of 2021.	USD50	40%	2,100 rooms

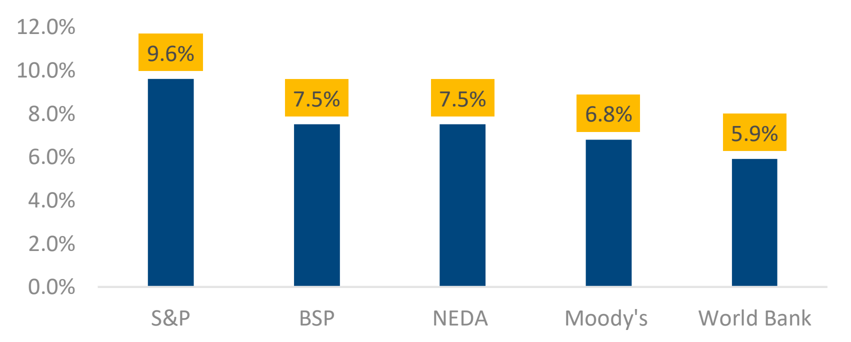
Source: Colliers International

Note: USD1 to PHP48 as of the end of Q3 2020. 1 sq m = 10.76 sq ft. *Covers upcoming industrial space in the Cavite-Laguna- Batangas (CALABA) corridor.

GOVERNMENT-PROJECTED ECONOMIC GROWTH TO BENEFIT PHILIPPINE PROPERTY

The Philippine economy contracted by another 11.5% in Q3 2020. The country posted a contraction of 10% in the first nine months of 2020. Despite this, Finance chief Carlos Dominguez is optimistic for a faster economic rebound in 2021[1] especially with the prospect of an effective vaccine against COVID-19 being rolled out in Q2 to Q3 2021.

Economic recovery in 2021: Select GDP forecasts



Source: Bangko Sentral ng Pilipinas (BSP, Central Bank of the Philippines). BSP: Early recovery signs point to strong 2021 economic rebound, Philippines National Economic and Development Authority (NEDA): DBCC sees deeper economic slump, Moody's: Moody's sees steeper Philippine economic contraction, S&P: S&P sees PHL economy performing worst in SE Asia, World Bank: World Bank sees GDP shrinking 8.1% in 2020

Colliers Philippines believes that a major plank of economic growth beyond 2021 will likely be the implementation of crucial infrastructure projects within and outside Metro Manila. Previously, we emphasized that the completion and upgrading of railways, toll roads, and airports across the Philippines should contribute to higher land and property values. In our view, these projects are also likely to play an important role in dictating the development strategies of property firms beyond the pandemic.

Colliers believes that the timely approval and implementation of the 2021 national budget is crucial in supporting economic growth in 2021.

Note: [1]Philippine Daily Inquirer (2020). *Big bounce back' in GDP growth seen in 2021*

In our view, the continued construction of public projects such as roads, airports, and bridges is likely to stoke the property development sector. For 2021, the government has set aside PHP109 billion (USD2.3 billion) for the transportation department and about PHP667 billion (USD13.9 billion) for the Department of Public Works and Highways. In our view, these allocations will likely support the construction of infrastructure across the country beyond the current administration's term. These public projects should also stoke demand for integrated communities outside of Metro Manila beyond 2022.

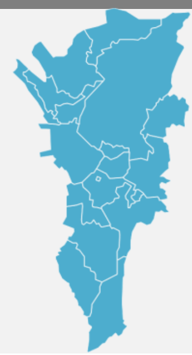
Colliers believes that office landlords, condominium developers, and mall operators should be mindful of the government-projected recovery in 2021. Developers and landlords should be more strategic with their landbanking and development strategies so they can capture pent-up demand once the economy rebounds in 2021. This pace of recovery should have a positive impact on Philippine property.

Office landlords should be more proactive in offering alternative leasing strategies to their tenants and assist those planning to occupy vacated PEZA* spaces.

Meanwhile, condominium developers that held off new launches in 2020 but are planning to capture pent-up demand in 2021 should look at attractive price segments and locations (detail in section 3 of this report) for pre-selling condominium amid the pandemic and lockdown.

Upcoming infrastructure projects in Metro Manila

Project	Completion
LRT-2 East Extension	2021
MRT-LRT Common Station	2021
MRT Line 7	2022
MRT Line 4	2025
Metro Manila Subway	2026
Skyway Stage 3	2020
NLEX-SLEX Connector Road	2021
Skyway SLEX Extension	2021
Estrella-Pantaleon Bridge	2021
BGC-Ortigas Link Bridge	2021
Clark Airport Modernization	2021
NAIA Redevelopment	2024
Bulacan International Airport	2025



Source: Colliers International
*Philippine Economic Zone Authority

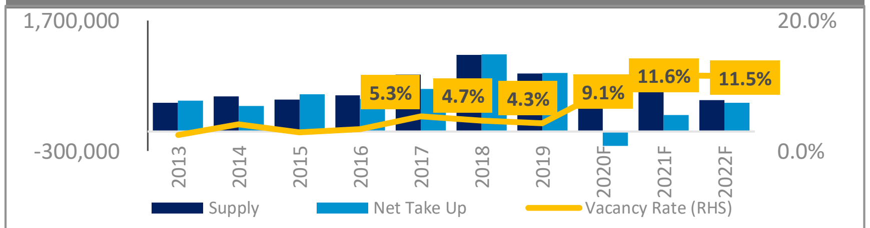
LANDLORDS TO ADJUST TO A CHALLENGING OFFICE LEASING MARKET IN 2021

We continue to see a challenging office leasing market. Philippine Offshore Gaming Operators (POGOs) have been vacating space while some traditional and outsourcing firms have either closed shop or are rationalizing their office footprint.

As of 9M 2020, net take-up of office space has turned negative. Colliers has recorded a net take-up of –113,000 sq metres (-1.2 million sq feet) in 9M 2020, down from the 605,600 sq metres (6.5 million sq feet) absorbed in 9M 2019. Hence, Colliers sees office vacancy in Metro Manila reaching 9.1% at the end of 2020 from 4.3% in 2019, as POGOs continue to vacate spaces and outsourcing and traditional tenants† rationalize their office requirements. For 2021, we project net take-up to reach 250,000 sq metres (2.7 million sq feet), with vacancy rising further to 11.6%.

New supply in Metro Manila is also likely to be affected by the pandemic. Colliers sees office completion in 2021 reaching 632,600 sq metres (6.8 million sq feet) down 35% from our initial projection of 969,900 sq metres (10.4 million sq feet) at the start of 2020.

Metro Manila office market, 2013-2022F (Sq meters)



Source: Colliers International

Colliers believes that office leasing recovery will primarily hinge on recovery of general business sentiment which should entice local businesses to re-open; and recovery of global economies that outsource services from the Philippines.

In our opinion, key segments such as telecommunications, medical coding, health information management, and e-commerce should partly help lift leasing starting H2 2021.

While most leasing is momentarily paused, some occupiers are still actively looking for office space, especially those that plan to implement alternative schemes such as a hub and spoke model. Colliers encourages landlords to expand their options by offering available office space in non-core locations where tenants can avail themselves of rents about 30% to 50% cheaper than major business districts. This is important especially for companies planning to implement a hub and spoke model wherein occupiers reduce the reliance of a single headquarters location for a more dispersed occupancy strategy.

In our view, tenants continue to take a wait and see stance and look for opportunities to reduce costs and align their leasing strategies with their long-term business plans while being mindful of the uncertainties in the business environment. Colliers believes that landlords should focus lease negotiations on strategies that support tenants and are responsive to their needs. We see tenants exploring short term (e.g. six month) lease renewals during this period of uncertainty, complementing traditional offices with remote work models. Meanwhile, the few companies that are still expanding are likely to secure long term leases and are taking advantage of opportunity to negotiate cheaper rates.

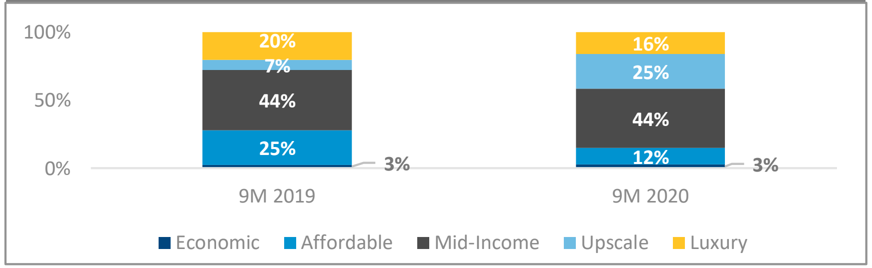
MID-INCOME TO LUXURY SEGMENTS TO DRIVE DEMAND FOR PRE-SELLING CONDOMINIUMS AMID SLOWER COMPLETION

Despite the pandemic, projects in the mid-income through luxury segments (PHP3.2 million or USD66,700 and above) showed resilience in 9M 2020. The segments accounted for 89% of total launches during the period. Mid-income to luxury projects also covered 85% of total sales in the pre-selling market, up from 72% in 9M 2019.

†*Traditional* includes companies in various sectors such as legal, engineering and construction, government agencies and flexible workspace operators, POGO, and outsourcing firms.

Over the past two years, these segments accounted for 68% of the total pre-selling take up in Metro Manila. In our view, demand in the residential sector in 2021 will likely be driven by mid-income to luxury projects. As of Q3 2020, Colliers Philippines data showed that projects in these segments due to be completed from 2021 to 2022 have sold an estimated 86% of their inventory. To tap pent up demand, developers should continue to offer flexible payment terms and adopt property technology (proptech) platforms. These include virtual reality (VR) tours and automated communication platforms for tenants and property management providers.

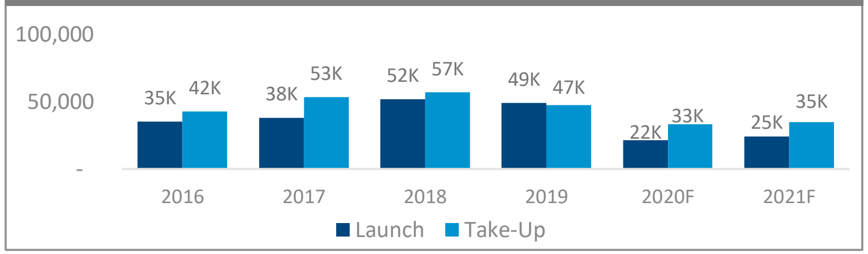
9M 2020 vs. 9M 2019 take-up in the pre-selling market



Source: Colliers International

Due to further construction delays, we project the delivery of 6,000 units in 2020, down 59% from our initial projection of 14,720 units. In 2021, we expect the completion of 7,270 new units, up 21% YOY. Around 76% of the new supply during the period will likely come from the Bay Area followed by Fort Bonifacio, Alabang, Ortigas Center, and Makati CBD. Colliers expects vacancy in the secondary market to reach 13.5% by the end of 2021. The government-projected rebound of remittances in 2021[2], lower mortgage rates, recovery of office leasing in 2021, and the likely rebound of take-up from end-users and investors should spill over to the residential sector.

Historical and forecasted pre-selling launches and take-up



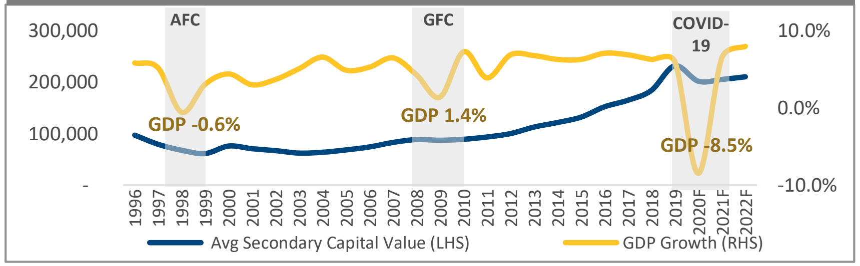
Source: Colliers International. Note: 2020 and 2021 forecasts are estimated based on historical growth rate

[2]Philippine News Agency, *Demand for OFWs to Help Remittances Recover in 2021*

As we expect an increase in demand, we see prices and rents recovering starting in H2 2021 on the back of improved office space absorption. By the end of 2021, we project prices and rents to grow by 1.7% and 2.1%, respectively, a reversal from -13% and -7.7% in 2020.

Condominium developers planning to tap the pent-up demand in 2021 should consider attractive price segments and locations for pre-selling developments. In 9M 2020, around 48% of mid-income projects that were sold during the period were located in Parañaque, Pasig, and the Alabang-Las Piñas area. During the same period, the bulk of upscale to luxury projects that were sold were in Parañaque, the Bay Area, Ortigas Center and fringe, and the C-5 Pasig corridor.

Historical secondary prices and GDP growth, 1995 to 2022F (PHP)



Source: Colliers International. Note: AFC is Asian Financial Crisis, GFC is the Global Financial Crisis.

OFFLINE-ONLINE STRATEGIES TO PROP UP RETAIL DEMAND, COMPLEMENT PURCHASING POWER RECOVERY

The pandemic has caused a significant disruption to the long run of growth of the Philippines' consumer-driven economy, severely affecting mall operators and retailers. From 2020 to 2022, we see retailers engaged in food and beverage (F&B), medical and other essential services driving retail space take-up. We project a muted brick-and-mortar space absorption from non-essential retailers.

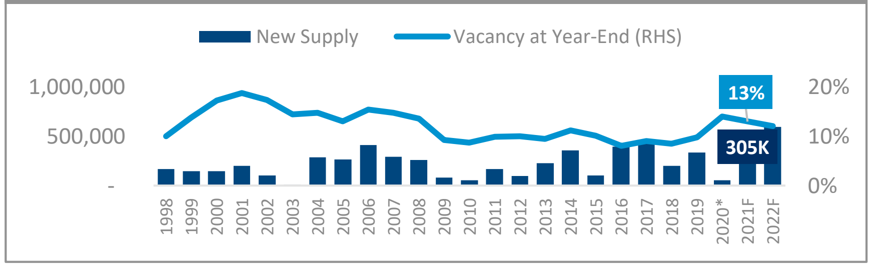
Colliers sees the completion of about 250,000 sq metres (2.7 million sq feet) of new retail space annually from 2021 to 2024, up from 53,100 sq metres (571,400 sq feet) recorded in 2020. The pandemic and lockdowns have compelled mall operators to implement innovative strategies to reach consumers and adjust to slower consumer traffic.

Among the malls lined up for completion from 2021 to 2023 are Mitsukoshi Mall, SM City Grand Central, Gateway Mall 2, One Ayala Retail, Parqal Mall, Greenhills Center, and SM Mall of Asia Expansion.

Despite the substantial new supply, we see vacancy reaching only 13% in 2021, slightly down from our projected forecast of about 14% in 2020 as we see increased absorption of retail space starting H2 2021.

Starting 2021, Colliers believes that the pace of construction of new malls will likely hinge on the improvement of Filipinos households' consumer confidence and purchasing power; and retailers' propensity to continue taking up physical mall space despite the growing popularity of online shopping.

Metro Manila retail market, 1998-2022F (Sq meters)

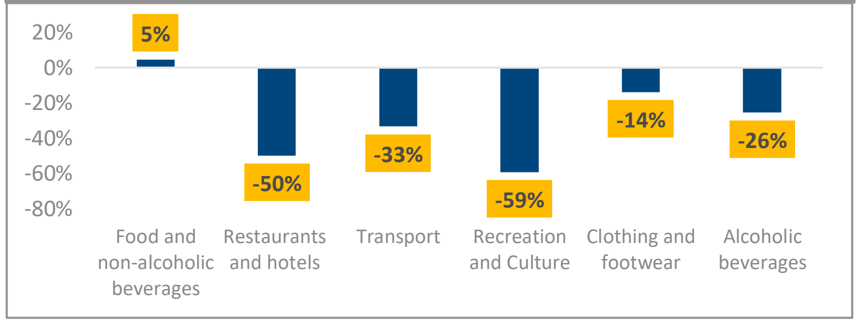


Source: Colliers International

Some mall operators have introduced curbside pick-up where customers are offered a contactless option to get their orders. Others have rolled out personal shopper services to reduce the risk of transmitting the COVID-19 and to enable contactless shopping.

Ayala Land is offering DeliverEasy and Ayala Malls Neighborhood Assistant (ANA); Megaworld has launched its lifestyle delivery app Pick.A.Roo; SM Supermalls has introduced Get and Go which offers curbside and drive-through pick-ups for essential needs while Robinsons Malls is offering Ring Rob, Rpersonal Shopper and Rdelivery services. A number of retailers have also been aggressive in rolling out online shopping strategies. Swedish furniture giant Ikea recently announced that they will likely open their online store months before the completion of their physical store in the Bay Area. H&M has partnered with Zalora to setup its first e-commerce marketplace while Merrymart is pioneering the dark grocery stores[3] concept that intends to provide a 15-minute delivery service in selected cities in Metro Manila.

Impact of the pandemic on household consumption, Q3 2020 (YOY)



Source: Philippine Statistics Authority

Over the next 12 months, Colliers sees landlords with rising vacancies exploring the viability of converting their vacant spaces into flexible workspaces. This is crucial given that malls are near residential communities; this arrangement should significantly reduce employees' commuting time and improve work-life balance. We also see some developers converting their vacant spaces into fulfillment centres or micro warehouses to enable retailers reach last mile deliveries.

Benefits of co-working space in malls (% of survey respondents)

Source: *Colliers International USA 2019 Retail Spotlight Report*. [3]Dark groceries are stores that are generally out of sight and only cater online deliveries within their vicinities.

Colliers also sees recovery enablers which are likely to anchor the retail sector's rebound such as mall wide sales, relaxed restrictions on public transportation, recovery in overseas foreign workers (OFW) remittances and employment, and the passage of the amendments to the Retail Trade Liberalization Act.

LEISURE SECTOR TO CONTINUE REELING FROM THE IMPACT OF THE PANDEMIC

The Philippine leisure sector continues to suffer from the impact of the pandemic and imposition of travel restrictions. Like other property markets, the hotel segment is likely to suffer from delayed completion of new projects as developers factor in a sluggish recovery.

In our *H2 2019 hotel report*, we highlighted the potential drop in Chinese arrivals due to the China-centric nature of the outbreak. Now that it has evolved into a global pandemic, this has also affected arrivals from other source markets such as South Korea, the USA, and Japan.

Data from the Department of Tourism (DOT)[4] show that tourist arrivals reached 1.32 million for the first ten months of 2020, down 81% compared to 10M 2019. Tourist receipts also plunged by 79.7% in 10M 2020 to PHP81.05 billion (USD1.7 billion) from PHP398.93 billion (USD8.3 billion) in the same period of 2019. The DOT attributed the decline in foreign arrivals to the travel bans implemented by the government from April to October 2020 due to the pandemic.

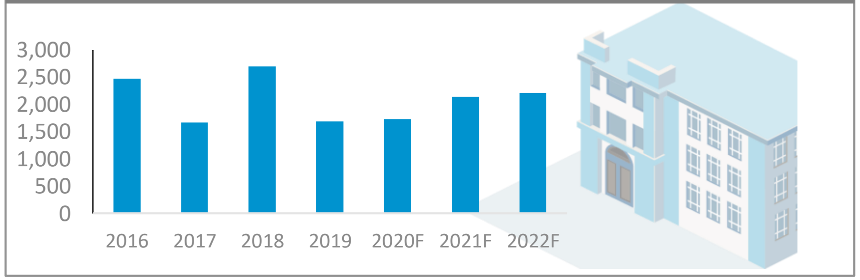
Over the next 12 months, we project foreign arrivals to remain muted as tourists and leisure stakeholders are likely to remain wary of travelling until a vaccine is rolled out. We see this having an impact on the country's hospitality sector as well as hotel occupancy and average daily rates (ADR) of hotels across Metro Manila.

In H1 2020, Colliers saw hotel occupancy in Metro Manila dropping to 25% from 71% in H2 2019. We attribute the drop to the substantial decline in foreign arrivals due to the pandemic and global travel restrictions.

Note: [4,5] Businessmirror, *10-month tourism arrivals, receipts plunge by 80%*

Most of the hotel guests during the lockdown, which started mid-March, were returning OFWs, health workers serving as frontliners , as well as professionals working in Metro Manila whose daily commute was limited by the suspension of mass transportation in the capital region.

Metro Manila Hotel Supply Forecast (2016-2022F)

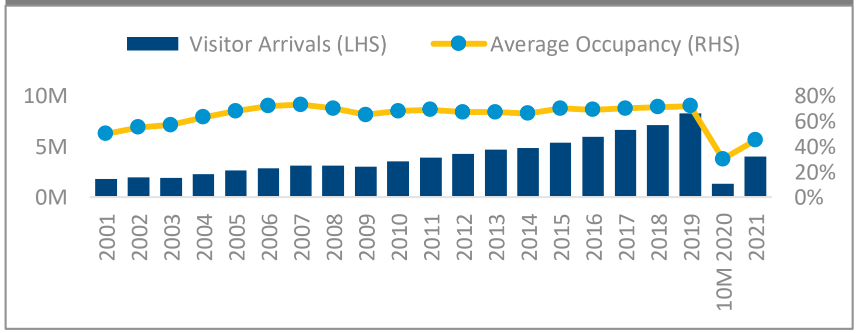


Source: Colliers International

From 2020 to 2022, we see the completion of about 6,100 rooms or about 2,020 rooms annually. New supply is likely to pick up in 2021 and 2022 following the delayed delivery of several hotels in Metro Manila.

In 2021, we project occupancy rates to recover yet remain at sub-50% levels as foreign arrivals will likely be subdued and the substantial new supply is coming online across Metro Manila. Hence, we see ADRs declining by about 10% in 2021 from the projected 30% drop in 2020. The recovery should be supported by DOT's aggressive domestic tourism[5] campaign and the implementation of travel corridors between COVID-19 free countries in Asia.

Philippines visitor arrivals vs. Metro Manila Hotel Occupancy



Source: Colliers International
Note: Tourist Arrivals as of October 2020

Colliers believes that hotel operators should be more agile given the anemic demand brought about by the pandemic and the global economic crunch. These schemes, however, should comply with the government mandated physical distancing measures. These offerings should be promoted aggressively on social media and target the millennial and mobile workforce.

Hotel operators should also continue utilizing technology to enhance customer experience. These technology-enabled services include keyless check-ins, smart room controls, and 24/7 mobile connectivity. In our opinion, the pandemic and physical distancing protocols likely to be implemented once COVID-19 wanes only highlight the need to roll out innovative hotel services using modern technology.

DEVELOPERS TO SEIZE LOCKDOWN-DRIVEN OPPORTUNITIES IN LOGISTICS

Due to the limitations brought about by the pandemic, consumers have shifted to online shopping. We expect retailers to adopt an omnichannel approach as they further tap the e-commerce market. Mall operators and retailers will likely firm up partnerships with logistics firms and warehouse developers to reach last mile deliveries. This requires an adequate and versatile network of logistics infrastructure.

Colliers expects a healthy demand for warehouses sustained by an economy that is primarily household spending-driven. The segment accounts for about 70% of the country's Gross Domestic Product (GDP)[6]. With increasing competition in the retail landscape, mall operators need to differentiate and partner with logistics and warehousing providers to keep business afloat. We see developers tapping into the sector's potential growth as shown by rising storage investments in the country. Data from the Philippine Statistics Authority (PSA) showed that transportation and storage accounted for 33% or PHP14.8 billion (USD309.2 million) of total approved foreign investments in H1 2020, an all-time high.

Developers should maximize opportunities by further adopting Industry 4.0[7] practices to modernize warehouses, building more cold storage facilities, exploring co-working and flexible warehousing, and converting vacant mall and office spaces into fulfillment centres. Selected mall operators have already announced their plans to convert certain retail spaces into microwarehouses. Demand for these facilities will likely be driven by tenants shifting to e-commerce. Potential locations for these facilities include Quezon City, Manila, Pasig, Makati, Pasay, Muntinlupa, Marikina.

Philippines' existing and upcoming leasable warehouse supply

Location	Est. total leasable Supply (sq m)	Est. additional space to be offered through 2021 (sq m)
Metro Manila	825,800	179,800
Cavite	392,000	41,300
Laguna	347,600	17,000
Batangas	76,500	14,000
Pampanga	73,600	-

Source: Colliers International

We estimate that around 73,600 sq metres (792,200 sq feet) of total warehouse supply is available in Pampanga, lower than our estimate of 816,100 sq metres (8.8 million sq feet) in the Cavite-Laguna-Batangas (CALABA) corridor. More than half of the supply is still located in Metro Manila as we estimate that around 825,800 sq metres (8.9 million sq feet) of leasable warehousing space is located in the capital. Around 30% of the available supply in the country's capital is located in Valenzuela. Starting in Q4 2020, we estimate that around 179,800 sq metres (1.9 million sq feet) of leasable warehouse space will likely be offered in Metro Manila with the completion of projects such as Juan Luna Logistics, Recto Logistics Center, and Rosan Logistics Center by Anchor Land in Binondo.

Note: [6]Philippine Statistics Authority, [7]Automation of traditional practices for the manufacturing and industrial sector to adopt more modern smart technology.

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