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OUTLOOK FOR RECOVERY AND NEAR-TERM STRATEGIES FOR DEVELOPERS AMID SLOWER Q1 GDP

Economic recovery in 2021 likely to support Philippine property sector

Insights & Recommendations

The Philippine economy contracted by 0.2% in Q1 2020, ending 84 consecutive quarters of growth. While the Philippine central bank is projecting a 0.8% contraction in 2020 it expects a sharper rebound in 2021 with a growth rate of 7.8%.

Despite uncertainties in the market, we encourage both landlords and tenants to further explore opportunities in the property market by:

> Working with existing tenants to provide flexible lease terms

> Highlighting wellness features of office buildings

> Offering flexible lease terms for condominium buyers

> Expanding offline-to-online retail strategies

> Ramping up marketing efforts to recapture retail demand

GDP SLUMPS IN Q1, CENTRAL BANK SEES RECOVERY IN 2021*

The Philippine GDP contracted by 0.2% in Q1 2020, the first contraction of the economy since Q4 1998, during the Asian Financial Crisis. Economic managers* are attributing this decline to the recent Taal Volcano eruption; travel restrictions imposed due to the COVID-19 pandemic and the enhanced community quarantine (ECQ) imposed all over Luzon.

CONSTRUCTION RECOVERY LIKELY IN 2021

In Q1 2020, public construction growth rebounded to 0.3%**, compared to the 9.1% contraction recorded in in Q1 2019, due to the timely approval of the 2020 national budget. The new budget supported new infrastructure development projects throughout the country. Private construction grew by only 4.4% compared to 26.5% in the same period in 2019, as work stoppage due to the ECQ in Luzon and supply chain disruptions slowed the construction of office towers, residential units (condominiums and houses & lots), and malls. We expect a recovery in private construction in 2021 as developers respond to a likely recovery in office space and residential demand.

*Business Mirror, BSP still sees "vigorous rebound". **Philippine Statistics Authority. Note: 1 sq m = 10.76 sq ft.

Office: Slower take-up in 2020, rebound in 2021

Colliers has downgraded its net take-up forecast due to a softer demand in the market. This is supported by the contraction recorded in Q1 2020. We believe our original projection of 900,000 sq metres of net absorption (9.7 million sq feet) is unlikely to be achieved. For 2020, Colliers is now looking at a net take-up of about 600,000 sq metres (6.5 million sq feet).

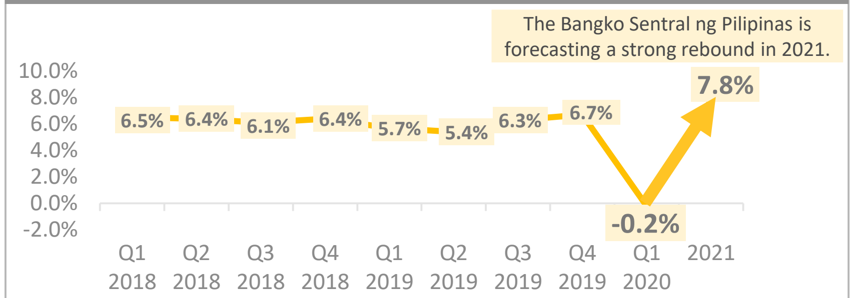
The bitter experience of the 1998-1999 Asian Financial Crisis taught office developers an important lesson – turn off the supply tap quickly. Developers did this during the 2008-09 Global Financial Crisis. After ramping-up supply to 480,000 sq metres (5.2 million sq feet) in 2008 and 540,000 sq metres (5.8 million sq feet) in 2009, completions fell sharply to 203,000 sq metres (2.2 million sq feet) in 2010 as projects were deferred or outright cancelled. This supply cut is one of the reasons why the Metro Manila office sector turned around quickly post-GFC, posting a 5.6% vacancy in 2010 from 8.6% in 2009, even with less diversity among the demand drivers compared to today.

The last time the Philippine GDP contracted, in 1998, average office lease rates dropped by 16% and only began recovering in 2004 when rents rose by 14%.

Colliers believes that this is an opportunity for landlords to work with existing tenants by providing flexible lease terms and highlighting wellness features (e.g. LEED and WELL-certified offices) as well as property management capabilities.

Meanwhile, occupiers should consider implementing a flex-and-core strategy — a mix of traditional and flexible workspaces — as they gauge their expansion plans over the next three to six months. In our opinion, occupiers should also look at office towers in fringe locations where office lease rates are about 20% to 30% cheaper compared to buildings in major business districts.

Philippine historical GDP growth and forecast, Q1 2018 – 2021



Source: Philippine Statistics Authority

Residential: Pent up demand in 2021

For 2020, Colliers expects a slowdown in condominium completion due to work stoppage following the enhanced community quarantine (ECQ) implementation in Luzon. We now expect the delivery of about 10,900 units, a 26% drop from the 14,700 units we initially estimated for 2020.

The Philippine condominium market is facing a tremendous challenge. The slowdown in business activities as well as the government-projected rise in unemployment and drop in remittances from Filipinos working abroad are likely to result in softer demand for condominium units in Metro Manila. Colliers sees rents in the secondary residential market, which covers completed units, falling by 5.5% in 2020. This is slower than the 15% contraction during the Asian Financial Crisis in 1998 but steeper than the 3.7% fall in 2009 during the Global Financial Crisis. This is likely to be a result of imbalance between supply and demand. Hence, Colliers encourages developers with a significant number of unsold units to implement creative leasing schemes.

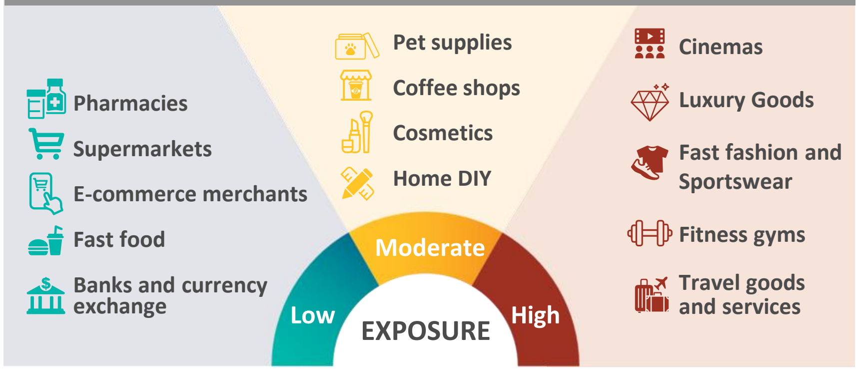
Low interest rates should keep mortgage rates low, and this should enable developers to offer flexible lease terms to buyers. Colliers believes that low mortgage rates should help propel the Metro Manila condominium market once the pent-up demand kicks in starting Q1 2021.

Retail: Innovate or Evaporate

Malls and other retail establishments were forced to close due to the lockdown in Metro Manila. Colliers believes that even with the partial lifting of the ECQ on May 16, Metro Manila's consumers are still likely to limit their expenditures to essentials such as groceries, medicines and F&B for delivery. In addition, the implementation of physical distancing measures by the government is also likely to result in a gradual opening of retail spaces in the country's capital. We also expect rising unemployment and slower remittance inflows to erode consumer purchasing power, and this should dampen the demand for retail space. In 2020, Colliers sees Metro Manila vacancy rising to 12% from 9.8% in 2019.

In our opinion, retailers should be more aggressive with online sales and be more innovative with client engagement programs, particularly for higher-end brands (e.g. assigning personal shoppers). Mall operators, meanwhile, should re-think the allowable density of people in food courts and cinemas while implementing strict sanitation standards.

Retail Spectrum: which retail segments are likely to be affected?



Source: Colliers International; Moody's

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