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LOCKDOWN ECONOMY DRIVES OPPORTUNITIES IN LOGISTICS

Healthy demand for logistics and warehousing driven by e-commerce and the emergence of a lockdown economy

Insights & Recommendations

We project a more active take-up in 2021 and 2022 due to manufacturing and logistics investments. Demand from the manufacturing sector will likely be led by firms in the essential goods industry such as food, beverage, and pharmaceuticals.

We expect a healthy demand for the warehousing sector supported by the growth of e-commerce and the emergence of a lockdown economy.

We recommend developers should further modernize their facilities to capture demand, invest in the cold-chain sector in preparation for the government's vaccine program, and explore viable land outside of CALABA[1] such as areas in Northern Luzon.

		H2 2020	Full Year 2021	2021–24 Annual Average
Demand	> Colliers expects manufacturers of essential items to drive demand starting 2021. Demand for the warehousing sector will likely be sustained by an economy that is primarily household spending-driven.	−8 ha	80 ha	44 ha
Supply	> We recorded a total of 22 ha (54.4 acres) of new industrial supply in 2020. More than 90% of supply during the period came from Cavite with the rest in Laguna. In 2021, we expect a fivefold increase in new supply across CALABA.	0	117 ha	44 ha
		HOH / End H2	**YOY / End 2021**	**Annual Average Growth 2020–24 / End 2024**
Rent	> In H2 2020 we recorded a decline in land leasehold rates due to muted demand from high-value manufacturers including the automotive industry. From 2021, we expect warehouse lease rates to grow at a faster pace than land leasehold, driven by take up from essential firms.	– 2.8% / PHP80	2.5% / PHP82	2.8% / PHP89
Vacancy	> In 2021, we expect vacancy to further increase with the new supply, before declining starting in 2022. This should further be sustained once government-approved investments materialize.	+0.2pp / 5.7%	+0.7pp / 6.4%	−0.1pp / 5.5%

Source: Colliers International. Note: USD1 to PHP48 as of the end of Q4 2020. 1 sq m = 10.76 sq ft; pp = percentage point. Data in the table above represents land leasehold rates. [1]CALABA – Cavite, Laguna, and Batangas.

RECOMMENDATIONS

More technological innovations to modernize facilities

Data from the Philippine Statistics Authority (PSA) show that the transportation and storage sector contributed more than 30% to total approved investments in 9M 2020, up from 0.6% in the same period of 2019. Demand for warehousing will likely rise over the next 12 to 36 months driven by the growth of e-commerce and deliveries. We recommend that developers should modernize their facilities by further adopting technological innovations to offer better services and differentiate themselves from competitors. These include automation, advanced robotics, conveyor systems, and data storage in the cloud.

Invest in more cold-chain facilities

We recommend that developers construct more cold storage facilities as demand in areas such as Metro Manila, Pampanga, and the Cavite-Laguna-Batangas (CALABA) corridor remains underserved. We expect demand to be driven by the growth of deliveries of perishable food items and groceries. This will likely be complemented by the government's anti-COVID19 vaccination program as some vaccines require cold chain facilities to ensure product quality. The Board of Investments (BOI), together with industry groups, launched a Cold Chain Industry Road Map that aims to increase cold storage capacity by 10%-15% annually or 50,000 pallets each year[1]. The current capacity of the sector is at 500,000 pallets. This growth should lead to a PHP20 billion (USD416.7 million) industry by 2023[2]. The agency also plans to create a National Cold Chain Committee to monitor programs. In our view, developers should consider areas outside of Metro Manila such as New Clark City and Taguig. These locations are likely to be developed by the government as agro-industrial zones.

Widen options and explore developable land in decentralized locations

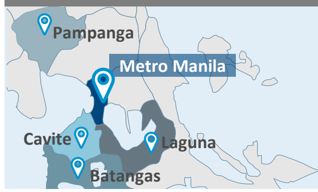
The CALABA corridor continues to be the main industrial hub of the country. Given the lack of available land in the area, industrial park developers should consider parcels of land in alternative locations of Northern Luzon including Pampanga, Tarlac, Bataan, and Pangasinan. The upcoming NLEX-SLEX Connector Road and the recently completed Skyway Stage 3 should further improve access between Southern and Northern Luzon. These infrastructure projects should help industrial park developers attract committed investments from the manufacturing sector once they materialize. The manufacturing segment contributed PHP27.2 billion (USD567.2 million) or 36% to total approved investments in 9M 2020, up from 15.9% in full-year 2019[3].

HEALTHY DEMAND FOR LOGISTICS AND WAREHOUSING

Data from the PSA show that approved foreign direct investments in 9M 2020 declined by 73% to PHP75.6 billion (USD1.6 billion) from PHP278 billion (USD5.8 billion) in the same period of 2019. The decline was likely due to dampened investor sentiment given the uncertainties brought about by the pandemic. In 2020, investments approved by the Philippine Economic Zone Authority (PEZA) also declined by 19.2% to PHP95.0 billion (USD2.0 billion) from PHP117.5 billion (USD2.4 billion) in 2019. PEZA initially targeted to approve at least PHP100 billion (USD2.1) in investment pledges in 2020[4]. The agency noted that the decline was due to delays in approvals as the board was unable to meet during the height of the lockdown in Metro Manila.

Despite the decline in committed investments, a number of indicators provide a glimmer of optimism for the industrial sector. The manufacturing, transportation, and storage sectors contributed 67% to total approved investments in 9M 2020. A significant jump from only 16.9% in 2019. We expect the CALABA industrial zone to benefit from these investments. The Cavite-Laguna-Batangas-Rizal-Quezon (CALABARZON) region received 16.2% of committed foreign investments in 9M 2020.

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

Another positive for the sector is the growing demand for logistics and warehousing. This will likely be supported by the growth of e-commerce and an economy that is primarily household-spending driven.

Source: [1]SunStar, Cold chain revenue to reach P20B in 2023. [2]Malaya Business Insight, Cold chain sector put to test. [3]Philippibe Statistics Authority. [4]BusinessWorld, PEZA investments drop 19% as pandemic drags on .

Personal consumption expenditures accounted for 74% of the country's Gross Domestic Product (GDP) at the end of 2020. In 9M 2020, the share of warehousing to gross value added in transport and storage reached a record-high 31% from an annual average of 23% from 2016 to 2019.

VACANCY TO DECLINE POST-2021

At the end of 2020, vacancy in CALABA further increased to 5.7% from 5.5% in H1 2020. The increase was likely due to the subdued market conditions resulting in less absorption of industrial space. In Cavite, we have observed automotive manufacturers moved out or opted to sell their property given the slump in global vehicle sales. Data from the Chamber of Automotive Manufacturers Of the Philippines Inc. (CAMPI) and Truck Manufacturers Association Inc. (TMA) show that vehicle sales in the Philippines reached 223,800 units in 2020, down 39.5% YOY.

From 2021 to 2023 we expect the completion of 150 hectares (380 acres) of new industrial space. These developments include the Lima Technology Park expansion and the second phase of Cavite Technopark. AyalaLand Logistics Holdings Corporation (ALLHC) also started the construction of additional ready-built facilities in Cavite Technopark under ALogis, its industrial leasing arm. The 16,000 sq metre (172,200 sq feet) phase two will likely accommodate light to medium enterprises starting December 2021. The existing 13,000 sq metre (139,900 sq feet) phase one caters to manufacturing firms for products such as tobacco, bags, toys, and laser printing[5].

Despite the amount of new supply in 2021, we do not expect a significant increase in vacancy as previously approved investment commitments will likely materialize and absorb space. The absorption will likely be driven by manufacturers of essential items. In H2 2020, we observed food and optical lens manufacturing companies taking space in Batangas and Laguna.

However, issues such as global supply-chain challenges due to border restrictions, limited public transportation for employees, the 8% decline in household consumption in 2020[6], and further contraction of factory activity may affect the expansion plans of firms. In December 2020, IHS Markit Philippines Manufacturing PMI[7] dropped to 49.2 from 49.9 in November 2020, below the 50-mark level that represents favorable operating conditions[8]. Uncertainties surrounding the Corporate Recovery and Tax Incentives for Enterprises (CREATE) bill that aims to rationalize tax perks of locators may also affect potential expansion of operations.

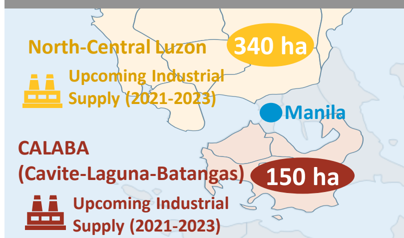
The growth of the e-commerce sector has compelled retailers to firm up partnerships with logistics firms and warehouse developers. We expect developers to maximize opportunities by exploring flexible warehousing, converting vacant mall spaces into microwarehouses, and constructing more cold storage facilities. Potential growth areas for this industry include Angono, Taytay, and Cainta to cater to the Eastern portion of Metro Manila.

FASTER WAREHOUSE RECOVERY

At the end of 2020, land leasehold and warehouse lease rates declined by 2.8% and 1.9% YOY, respectively. The decline was partially due to firms that shutdown operations. Nissan and Honda, due to the pandemic, have announced plans to cease manufacturing in the Philippines[9] while Petron Corp. intends to temporarily close its refinery in Bataan[10]. Despite certain ceasing of operations, Toyota Philippines plans on expanding with its 32-hectare (79 acres) vehicle logistics hub in Batangas[11]. The PHP4.5 billion (USD93.8 million) facility will likely open by late 2021. We see warehouse lease rates growing by 2.9% annually from 2021 to 2022, faster than the 2.7% annual growth for land leasehold.

We expect warehouse developers to expand in 2021. Colliers estimates that around 179,800 sq metres (1.9 million sq ft) of warehouse space will likely be offered in Metro Manila starting Q4 2020. Despite the higher warehouse rental rate near business districts, firms continue to locate due to its convenience and accessibility of high-density commercial areas. Average monthly rental rates for warehouses in the capital ranges from PHP220 to PHP570 (USD4.6 to USD11.9) per sq metre, higher than the PHP160 to PHP240 (USD3.3 to USD5.0) for Northern and Central Luzon.

Upcoming industrial supply, 2021 to 2023 (in hectares)



Vacancy in CALABA

Region IV-A	H1 2020	H2 2020
Cavite	5.6%	6.0%
Laguna	4.2%	4.2%
Batangas	6.6%	6.8%
Average	**5.5%**	**5.7%**

CALABA	H1 2020	H2 2020	Growth (HOH)
Leasehold (Land)	PHP82	PHP80	-2.8%
Lease Rates (SFB*)	PHP283	PHP278	-1.9%

Source: Colliers International. *Standard Factory Building. [9]BusinessWorld, Nissan to end car assembly in PHL. [10]Philippine Daily Inquirer, Petron averts permanent shutdown of Bataan refinery. [11]ABS-CBN News, Toyota to open P4.5-billion logistics hub in Batangas late 2021.

Source: [5]Manila Bulletin, AyalaLand Logistics expanding industrial facilities in Naic, Cavite. [6]Philippine Statistics Authority. [7]Purchasing Managers' Index. [8]BusinessWorld, Factory output further shrinks in December.

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