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Green shoots of recovery for Philippine residential property

Economic rebound, vaccination to help lift residential demand

Insights & recommendations

Pandemic-induced disruptions have altered the Philippine economy and the property sector. Weak office leasing demand contributed to subdued residential demand. We expect this to result in further price and rental correction.

Colliers expects a recovery in new supply in 2021, as developers are already exploring the viability of new project launches in key areas across Metro Manila.

The government's vaccination program is providing a glimmer of hope, and economic recovery should also provide a much-needed boost to local investor and end-user demand.

In our view, developers should further test demand in the luxury market and become more innovative with promotions and incentives.

		Q1 2021	Full Year 2021	2021-25 Annual Average
Demand	The pandemic continues to hamper residential demand in both the pre-sale and secondary markets. Colliers projects take-up to be driven by mid-income-to-luxury projects over the next 12 to 24 months.	▲ 2,518 units	▲ 6,421 units	▲ 6,438 units
Supply	In Q1 2021, Colliers recorded the delivery of 4,145 new units, all in the Bay Area. The submarket is likely to account for 74% of the 10,387 units that we expect to be completed in 2021.	▲ 4,145 units	▼ 10,387 units	▼ 7,525 units

		QOQ / End Q1	YOY / End 2021	Annual Average Growth 2020–25 /End 2025
Rent	Rents across the secondary market further declined by 1.6% in Q1 2021, following a 7.8% correction in 2020, exceeding the 3.7% drop during the GFC[1]. We expect rents to rise gradually starting in 2022.	-1.6% ▼ PHP699	-3.8% ▼ PHP684	+1.0% ▲ PHP744
Vacancy	Vacancy further increased to 16.3% in Q1 2021 after reaching 15.6% in 2020. As we expect 10,400 units to complete in 2021, Colliers sees vacancy increasing to a new record high by end-2021.	+0.7pp ▲ 16.3%	+1.6pp ▲ 17.2%	-0.5pp ▼ 15.3%
Capital Values	After a significant decline in 2020, prices dropped by another 2.5% in Q1 2021, due to the impact of COVID-19. We expect a slow recovery to be supported by the government's vaccine roll-out.	-2.5% ▼ PHP196,410	-5.9% ▼ PHP 189,490	+0.4% ▲ PHP205,000

Source: Colliers

Note: USD1 to PHP48 as of the end of Q1 2021. Demand represents net take-up in the secondary market (in units). Rent and capital values are per sq metre and represent Prime and Grade A projects in selected submarkets. [1]GFC = Global Financial Crisis.

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Recommendations

Further explore joint venture and luxury projects

We believe that projects in the luxury segment[2] are the least-affected during an economic slowdown. Joint venture (JV) projects between local and foreign firms are currently among the most expensive in the market and offer innovative facilities and amenities. Despite the higher price, the average take-up in these projects reached 85% as of the end of 2020. Colliers believes that Philippine developers should seize opportunities in the market by further exploring partnerships with foreign firms. Given the potential demand, we expect more luxury projects to be launched in the market, and these are likely to include joint venture developments.

Consider fringe areas for new developments

Over the past few years, the need to develop additional projects has compelled developers to consider land in fringe areas. Data from a Colliers survey in February 2021 showed that more than 70% of the respondents plan to develop a property in the Mandaluyong and Alabang-Las Piñas areas in the next 12 months. These areas accounted for 21% of total take-up for mid-income to luxury projects[3] in 2020. Developers also continued to launch new projects in the peripheral areas, including The Camden Place by DMCI in Manila South, 8 Benitez Suites by Rockwell in QC South, and Mint Residences by SMDC in Makati Fringe.

Innovative pricing and promos

In Q4 2020, take-up in the pre-sale market reached 6,000 units, down 53% from 12,900 units in Q4 2019. Given the decline in demand, developers have started offering promos to attract buyers. In Manila, Pasig, and Mandaluyong, discounts in the market range from 3% to 16%. Certain developers are also offering split or no down payments, lower reservation fees, and free items such as appliances, furniture, and gadgets. In our opinion, investors that plan on buying should monitor the discounts and promos in both the secondary and pre-selling market.

Constantly monitor key demand drivers

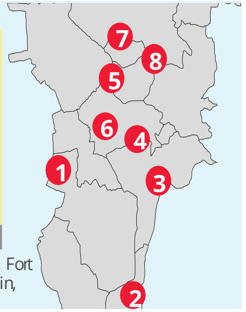
Colliers notes that remittances from Overseas Filipino Workers (OFWs) continue to drive demand for affordable to mid-income (PHP1.7 million to PHP5.99 million or USD34,000 to USD119,800) condominiums in Metro Manila. Developers will likely continue to cater to families that receive remittances from abroad. We recommend that developers monitor the COVID-19 situation in countries that are major sources of remittances. From January to February 2021, the United States, Saudi Arabia, and Singapore accounted for about 50% of total OFW remittances.

2021 new completions to more than double

In Q1 2021, we saw the completion of 4,145 units, more than double the 1,080 units delivered in Q4 2020. All of the new units during the quarter were from the Bay Area, with the delivery of Six Senses Resort I-Scent Tower, Shore 2 Residences Building 3, and the 2,197-unit Coast Residences Tower 1. We expect the delivery of 10,387 new units in 2021, down 2.0% from our initial forecast made in 2020 of 10,604 units, due to a project delayed to H1 2022 because of extended structural work. Despite the lower projection, this is more than double the 3,370-unit total in 2020. More than 85% of 2021 completions are expected to be in the Bay Area and Fort Bonifacio.

Metro Manila residential stock forecast, end of 2020 and 2023 (units)

	Location	End of 2020	End of 2023	% Change
1	Bay Area	22,750	38,540	69.4%
2	Alabang	4,880	5,900	20.9%
3	Fort Bonifacio	39,100	43,060	10.1%
4	Rockwell Center	5,270	5,830	10.6%
5	Ortigas Center	18,730	22,190	18.5%
6	Makati CBD	28,550	29,600	3.7%
7	Araneta Center	4,550	5,150	13.2%
8	Eastwood City	9,630	9,630	0.0%
	Total	**133,460**	**159,900**	**19.8%**



Note: Google Maps estimated travel time to Makati: Bay Area-17 min, Alabang-24 min, Fort Bonifacio-14 min, Rockwell Center-9 min, Ortigas Center-15 min, Araneta Center-23 min, Eastwood City-29 min. (private vehicle).

Source: Colliers. CBD = Central Business District. [2]Luxury = PHP8 million or USD166,700 and above. [3]Mid-income to Luxury = PHP3.2 million or USD66,700 and above

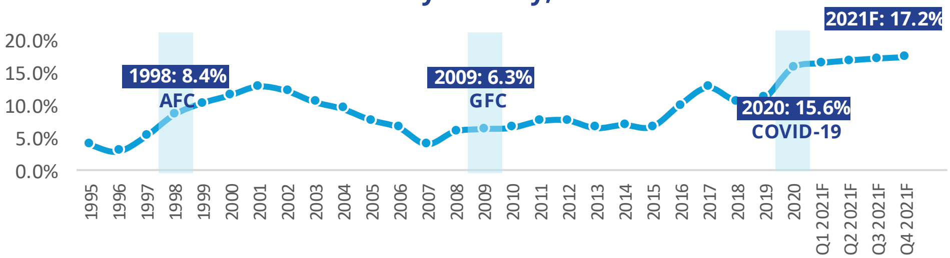
Vacancy to slightly recede starting in 2022

In Q1 2021, vacancy in the secondary market increased from 15.6% to 16.3%. Vacancy across all submarkets increased, with the highest in the Bay Area, Fort Bonifacio, and Makati CBD. In 2020, Fort Bonifacio and Makati CBD accounted for 64% of new completions, which likely contributed to the increase. The increase in vacancy in the Bay Area was likely partially caused by the impact of travel restrictions on the offshore gaming industry. In Q1 2021, POGO[4] transactions totaled only 25,000 sq metres (269,100 sq feet), down by almost half from 48,000 sq metres (516,700 sq feet) in Q1 2020. Residential demand in the Bay Area is significantly driven by POGO employees. In 2021, we expect residential vacancy to further increase to 17.2%, close to our previous projection of 16.9%. This is due to the significant number of new completions reaching 10,390 units from only 3,370 units in 2020. We see vacancy slightly declining starting H2 2022, supported by a rebound of the economy and gradual recovery of office leasing.

The slowdown in office space absorption also likely affected residential demand. Average office vacancy mirrored the residential market as it continued to increase to 11% in Q1 2021 from 9.1% in Q4 2020. Colliers has observed a slowdown in new launches in the pre-sales market of selected areas, including Quezon City and Pasig. In Q4 2020, launches in the capital only reached 5,400 units, down 68% annually. In terms of sales, projects that still performed well in Q1 2021 were in Fort Bonifacio, Manila, Muntinlupa, and the C5-Pasig corridor.

In our opinion, certain recovery drivers provide a sense of optimism in the market. From January to February 2021, cash remittances from OFWs reached USD5.1 billion (PHP 244.8 billion), up 1.5% annually. This is a reversal from the 0.8% decline YOY in 2020. The Bangko Sentral ng Pilipinas (BSP), the central bank, projects cash remittances to reach USD31 billion (PHP1.5 trillion) in 2021, up 4% YOY[5]. OFW remittances continue to be one of the key drivers of residential demand. The central bank's benchmark interest rate also remains steady at 2.0%, a record-low[6]. This should help support economic recovery and keep mortgage rates attractive to investors.

Metro Manila historical secondary vacancy, 1995 to 2021F



Source: Colliers. Note: AFC = Asian Financial Crisis, GFC = Global Financial Crisis

Rents and prices: a further correction in 2021

In Q1 2021, prices and rents declined again by 2.5% and 1.6%, respectively. We expect further correction in 2021, albeit at a slower rate, after the significant drop recorded in 2020, when prices and rents decreased by 13.2% and 7.8%, respectively. Starting 2022, the pace of growth for prices and rents is expected reach 1.5% and 1.7%, respectively, due to the government's vaccine roll out and a rebound in office space absorption. Prior to the pandemic, the average growth of prices from 2015 to 2019 reached 13.9% annually.

Due to the impact of COVID-19 on the leasing market, Colliers has observed tenants putting housing requirements on hold. This was partially due to the rising number of cases and concerns about additional move-in expenses like mandatory COVID-19 testing. Given the current leasing market situation, selected landlords are now offering discounts between 20% and 25%. This is particularly common in condominium developments with higher vacancies, including those in the Bay Area. Aside from discounts, some tenants have also started asking for additional concessions such as discounted maintenance fees. On the other hand, we have observed tenants that opted for house and lot (H&L) properties over condominiums. This is likely due to the limited usability of amenities in condominiums, as property management personnel continue to follow strict social distancing protocols. H&L properties also offer larger living spaces that are popular with families.

Source: [4]POGO = Philippine Offshore Gaming Operator. [5]BusinessWorld, Remittances seen at $31 billion in 2021, up 4%. [6]Manila Bulletin, BSP vows to keep interest rates low if necessary

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