

Quarterly | Manila | 28 April 2022

# Stabilizing occupancy

## Riding the return-to-office momentum

### Insights & recommendations

Colliers Philippines sees the office market finally turning a corner as it recorded a positive net take-up in Q1 2022 after seven consecutive quarters of negative absorption. Traditional\*\* and outsourcing companies continue to dominate demand as they take advantage of the rental correction and availability of new office buildings in major business districts. Companies' return-to-office mandates should also support office absorption over the next 12 months.

Colliers recommends that tenants that are still in a wait-and see mode consider occupying flexible workspaces. Those with long-term occupancy plans should lock in spaces in new and sustainable office buildings and take advantage of rental corrections and other concessions given by landlords. Meanwhile, landlords should proactively capture demand from new start-ups given a more liberalized and competitive business environment.

		Q1 2022	Full Year 2022	2022-26 Annual Avg
	Traditional and outsourcing occupiers dominated take-up in Q1 2022. We project net absorption to recover in 2022 as firms execute return-to-office (RTO) plans.	 26,400 sq metres	 350,000 sq metres	 480,600 sq metres
	In 2022, we see the completion of 821,900 sq metres of new office space. Nearly 60% of the new supply is likely to come from the Ortigas CBD, Makati Fringe and Bay Area.	 306,100 sq metres	 821,900 sq metres	 556,400 sq metres
	Office rents dropped by an average of 3.1% QOQ in Q1 2022. We project a slow recovery in lease rates starting in 2023 as we see a pick up in demand from outsourcing and traditional firms.	 -3.1% PHP723	 -5.0% PHP709	 +2.7% PHP846
	Vacancy reached 17.3% in Q1 2022 from 15.7% in Q4 2021. Colliers revises its year-end projection of an 18.2% vacancy from 18.9% due to tapered new supply.	 +1.6pp 17.3%	 +2.5pp 18.2%	 0.0pp 15.3%

Source: Colliers

Note: USD1 to PHP52 as of the end of Q1 2022. 1 square m = 10.76 square ft. \*Also known as Philippine Offshore Gaming Operators (POGOs), primarily offshore gaming firms from China. \*\*Traditional occupiers include companies in various sectors such as legal, engineering and construction, government agencies and flexible workspace operators.

“The Philippine office market appears to be turning a corner with the stabilization of occupancy as we recorded a positive net take-up of 26k sqm after seven consecutive quarters of negative net absorption. The return-to-office and expansion plans of companies buoyed by improving pandemic situation and economic stimulus measures should accelerate take-up for the remainder of 2022.”

**Dom Fredrick Andaya**  
Senior Director, Office Services-Tenant Representation

## Recommendations

### Take advantage of rental corrections and prevailing market conditions

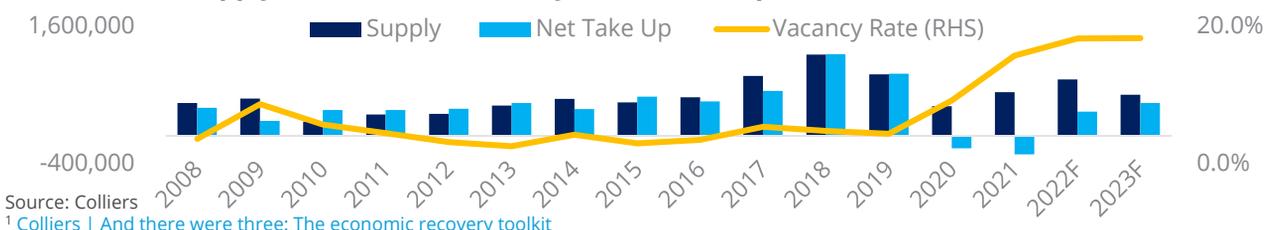
Office rents have dropped by about 30% compared to pre-COVID levels. In our opinion, this should enable occupiers to implement flight-to-quality and flight-to-cost measures in established business districts such as Makati CBD and Fort Bonifacio. Meanwhile, landlords should continue offering flexible leasing schemes such as rent-free periods, delayed escalations, longer fit-out periods and tenant improvement allowance to attract and retain tenants.

### Proactively seek new tenants from economic measures

In our view, the passage of economic reforms such as the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law, amendments to the Foreign Investments Act (FIA), Retail Trade Liberalization (RTL) and the Public Services Act (PSA) should have a positive impact on the country’s investment climate.

The relaxed investment requirements, reduced corporate income tax and increased foreign ownership will likely lead to greater demand for office space in the country. Colliers recommends that landlords seize opportunities from these legislative measures and secure leases especially from expanding multinational

### Metro Manila supply, demand and vacancy forecast (in sqm)



and outsourcing firms. Meanwhile, foreign entrants should explore office options in established business districts such as Makati CBD and Fort Bonifacio (Prime and Grade A buildings) for their local headquarters operations.<sup>1</sup>

### Lock in spaces in new and green certified buildings in key CBDs

As employers start to welcome workers back to the office, we recommend that landlords offer spaces that protect their employees’ health and well-being. This may be in the form of occupying spaces in buildings which have Leadership in Energy and Environmental in Design (LEED), Building for Ecologically Responsive Design Excellence (BERDE) or WELL certifications. From 2022 to 2025, Colliers projects about 35% of the new supply in Metro Manila will have green building certifications. Most of the green and sustainable buildings likely to be completed during the period will come from Makati Fringe, Fort Bonifacio, Ortigas CBD and Quezon City. These include One Filinvest, Makati Commerce Tower, Studio 7, DoubleDragon Tower and SM Mega Tower.

### Partner with flexible workspace providers

Colliers has noted the increasing inquiries for flexible workspaces as occupiers implement their business continuity plans (BCP) and explore the viability of plug-and-play offices and *swing* (temporary offices) spaces for their employees. Colliers encourages landlords to provide additional fitted spaces by partnering with serviced office providers or leasing out vacated spaces for short-term contracts. Meanwhile, we recommend that occupiers look for new and high-quality workspaces in locations with substantial flexible workspace vacancies such as Makati CBD, Ortigas CBD and Fort Bonifacio.

## 2022 new supply to grow 30%

In Q1 2022, we saw 306,100 sq metres (3.3 million sq feet) of new office space coming online. This is more than double the 114,300 sq metres (1.2 million sq feet) completed in Q4 2021.

### New office supply in Q1 2022



Source: Colliers

In 2022, we expect new supply reaching 821,900 sq metres (8.8 million sq feet), 30% higher than the 633,900 sq metres (6.8 million sq feet) in 2021. Some of the buildings due to be completed for the remainder of the year are: Makati Commerce Tower, Park Triangle Corporate Plaza, Filinvest Axis Towers 3 & 4 and SM Fairview Towers 2 & 3.

From 2022 to 2026, we project the annual delivery of 556,400 sq metres (6.0 million sq feet) of new office space. We see the Bay Area, Fort Bonifacio, Quezon City and Ortigas CBD covering 64% of the new supply during the period.

## Positive net take-up after seven consecutive quarters

Colliers recorded about 146,100 sq metres (1.6 million sq feet) of office deals in Q1 2022, up from the 134,100 sq metres (1.4 million sq feet) in Q4 2021. Traditional and outsourcing firms dominated office space take-up during the period. Some of the notable transactions in Q1 2022 include Facebook, Lazada, Arcadis, Orix and ePerformax. These firms took up office space in Fort Bonifacio, Makati CBD and the Bay Area.

Colliers believes that traditional and outsourcing firms are likely to lead office absorption in 2022. The Philippine Economic Zone Authority (PEZA) required Information Technology and Business Process Management (IT-BPM) firms to implement a hybrid work model following the 30% work-from-home (WFH) and 70% on-site

scheme (previously a 90-10% ratio).<sup>2</sup> This was after the Fiscal Incentives Review Board (FIRB) has denied PEZA's petition to extend the 90-10% ratio until the end of September 2022.

A survey<sup>3</sup> by the Information Technology and Business Process Association of the Philippines (IBPAP) showed that about 80% of Filipino employees prefer WFH over working on-site. The survey also revealed that 90% of employees are more productive in a hybrid model.

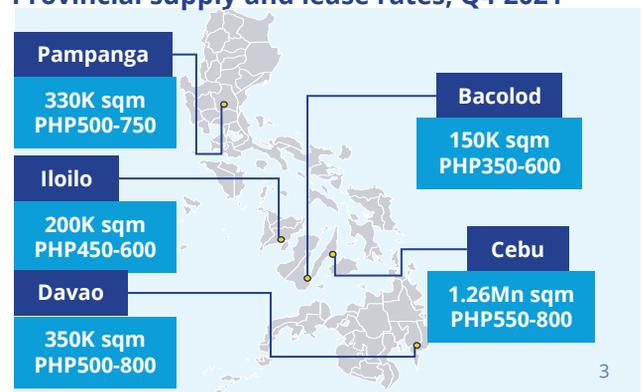
Colliers saw vacancy increasing to 17.3% in Q1 2022 from 15.7% in Q4 2021 due to the delivery of about 306,100 sq metres (3.3 million sq feet) of new office space. We revise our year-end forecast to about 18.2% from 18.9% due to our projected completion of about 821,900 sq metres (8.8 million sq feet) of new supply.

Net take-up for the first three months of 2022 reached 26,400 sq metres (285,100 sq feet), up from the -130,100 sq metres (-1.4 million sq feet) in Q4 2021. This is also the first recorded positive net absorption after seven consecutive quarters of negative net take-up. Colliers sees net take-up reaching 350,000 sq metres (3.8 million sq feet) in 2022 after a cumulative negative net-take up of -454,400 sq metres (-4.9 million sq feet) in 2020 and 2021. Colliers believes office space absorption is likely to be supported by firms' return-to-office mandates.

## Rents to pickup starting 2023

Office lease rates in Metro Manila declined by an average of 3.1% QOQ in Q1 2022. Colliers projects office rents to drop by about 5% in 2022 before a recovery starting 2023, supported by some companies' RTO mandates.

### Provincial supply and lease rates, Q4 2021



Source: Colliers

<sup>2</sup>PEZA to allow 70-30 hybrid work model - Manila Bulletin ([mb.com.ph](http://mb.com.ph))<sup>3</sup>IBPAP: Request for extension of Work-From-Home (WFH) / Work-From-Anywhere (WFX) arrangement for the IT-BPM industry.

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