Joey Roi Bondoc
Associate Director | Research | Philippines
+63 2 8858 9057
Joey.Bondoc@colliers.com

PRICE AND RENTAL RECOVERY DELAYED TO 2022

Projected rebound of office space absorption in 2022 likely to spill over to the residential market

Insights & Recommendations

A precarious Metro Manila office leasing market continues to hamper the recovery of the capital region's pre-sale and secondary residential markets.

Prices and rents corrected in 2020 due to dampened demand and we do not see a recovery in the next 12 months.

Pandemic-induced construction delays continue to limit the development of new units, while developers held off launches due to anemic take-up.

To take advantage of opportunities in the market and tap pent-up demand once market sentiment starts improving, Colliers recommends that developers explore creative leasing models, consider fringe areas for upcoming projects, and monitor attractive locations and price segments for pre-selling residential developments.

		Q4 2020	Full Year 2021	2021–23 Annual Average
Demand	Take-up in both the secondary and pre-sales markets reached a record low due to slow demand, given the adverse impacts of the pandemic. In 2021, we project demand to be driven by mid-income-to-luxury projects[1].	▼ -2,612 units	▲ 6,977 units	▲ 7,469 units
Supply	Colliers saw the completion of 3,370 new units in 2020, down 70% from 11,233 units in 2019. We expect a slight rebound in supply in 2021 as selected projects due to be completed in Q4 2020 were delayed to 2021.	▲ 1,080 units	▲ 10,604 units	▼ 9,127 units

		QOQ / End Q4	YOY / End 2021	Annual Average Growth 2020–23 / End 2023
Rent	The average rents in the secondary residential market declined by 7.8% YOY at the end of 2020. In 2019, average rents across Metro Manila increased by 6.9%. We expect a slight rise in rents starting in 2022.	-4.5% ▼ PHP710	0.5% ◀▶ PHP714	1.5% ▲ PHP741
Vacancy	As of the end of 2020, vacancy in the secondary market reached 15.6%, a record high. Colliers expects vacancy to further increase in 2021, especially in business districts with substantial stock such as the Bay Area and Fort Bonifacio.	+2.7pp ▲ 15.6%	+1.4pp ▲ 16.9%	0.13pp ◀▶ 16.0%
Capital Values	In 2019, prices increased by 26%, but fell by 13.2% in 2020. Colliers expects a slow recovery of prices starting 2022. This should be supported by a slow rebound in Metro Manila office leasing starting 2022.	-6.6% ▼ PHP201,500	0.4% ◀▶ PHP202,200	1.2% ▲ PHP209,000

Source: Colliers International. Note: USD1 to PHP48 as of the end of Q4 2020. Demand represents net take-up in the secondary market (in units). Rent and capital values are per sq metre. [1]Mid-income to Luxury projects = PHP3.2 million and above (USD66,700 and above).

Colliers INTERNATIONAL

RECOMMENDATIONS

Monitor attractive price segments and sites for preselling

In 2020, take-up in the pre-sales market reached 31,380 units, down 34% YOY. Also, in 2020, mid-income-to-luxury projects contributed to 86% of total take-up, up from 72% in 2019. Colliers Philippines data show that more than 90% of new launches in 2020 were classified as mid-income-to-luxury projects. Developers should monitor this price segment, as we expect demand to be driven by these projects beyond 2020. Attractive locations for this pre-selling price segment include Parañaque, Mandaluyong, Alabang-Las Piñas, and the Bay Area. In 2020, these locations comprised 43% of total take-up for mid-income-to-luxury projects.

Explore more creative leasing models and condominium management

As of the end of 2020, remaining inventory in Metro Manila stood at 42,511 units, down slightly from 42,768 units in Q3 2020[2]. More than 35% of the remaining inventory during the period was classified as Ready for Occupancy (RFO) projects. We recommend that developers with a substantial number of RFO units continue to explore creative leasing models to help lease out their units and assist their clients in achieving their yield target. We also encourage developers to consider partnering with residential asset management service providers to help ease the process of leasing, documentation, and payments.

Further diversification of projects

The share of upscale-to-luxury developments (priced at PHP6 million or USD125,000 and above) in new project launches has been on the rise. In 2020, these segments accounted for 41% of new launches during the year, up from an annual average of 25% between 2015 and 2019. While demand for upscale-to-luxury projects remained steady, we recommend developers consider launching more affordable-to-mid-income developments (PHP1.7 million to PHP5.99 million or USD35,400 to USD124,800 per unit) to capture more market demand and continue attracting Overseas Filipino Workers (OFWs) that partly drive the demand for affordable-to-mid-income pre-sale units. Developers should eye viable fringe areas that are ripe for construction and have shown strong pre-sales, including the Caloocan-Malabon-Navotas-Valenzuela (CAMANAVA) corridor, Pasig, Quezon City North, and Manila South. These areas accounted for 47% of aggregate take-up for affordable-to-mid-income projects in 2020.

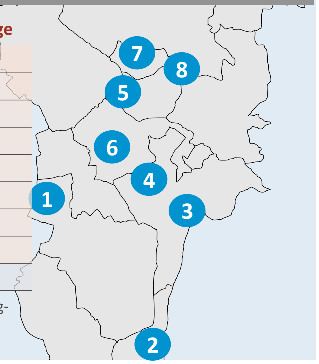
2020 COMPLETION DOWN 70%

Around 1,080 units were completed in Q4 2020, up 73% from the total of 625 units completed in Q3 2020. With the completion of Studio City Tower 5, more than 40% of the new units were located in Alabang. Other new completions during the quarter included Garden Towers Tower 2 in Makati CBD[3], Six Senses Resort I-Touch tower in the Bay Area, and Dusit D2 Residences in Fort Bonifacio. The completion of more than 2,900 units in the Bay Area and Fort Bonifacio was pushed back to H1 2021 due to extended interior unit work. This was likely caused by construction supply chain issues and limited manpower.

Total completions in 2020 reached 3,370 units, down 70% from 11,233 units in 2019. A slower pace of completion was also seen during previous economic downturns. In 1998, 690 new units were completed, down 9.0% from 760 units in 1997. Similarly, only 3,960 units were delivered in 2009, down 48% from 7,610 units in 2008. In 2021, we expect a rebound in completion with the delivery of 10,600 units, higher than our initial estimate of 7,910 units. We expect around 74% of the total to be in the Bay Area followed by Fort Bonifacio, Rockwell, Alabang, Ortigas Center, and Makati CBD. From 2021 to 2024, we expect the annual delivery of 8,600 units, an increase from 6,700 units we projected at the start of 2020.

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

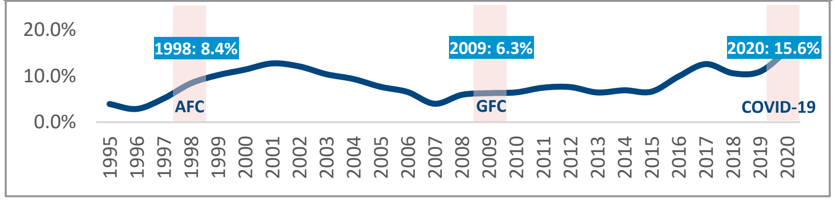
	Location	End of 2020	End of 2023	% change
1	Bay Area	22,750	39,680	74.4%
2	Alabang	4,880	6,050	24.0%
3	Fort Bonifacio	39,100	43,350	10.9%
4	Rockwell Center	5,270	5,830	10.6%
5	Ortigas Center	18,730	21,550	15.1%
6	Makati CBD	28,550	29,600	3.7%
7	Araneta Center	4,550	5,150	13.2%
8	Eastwood City	9,630	9,630	0.0%
	Total	**133,460**	**160,840**	**20.5%**



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 International. [2]Remaining inventory excludes Caloocan-Malabon-Navotas-Valenzuela (CAMANAVA). [3]CBD = Central Business District

Historical secondary vacancy, 1995 to 2020



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

VACANCY AT A RECORD HIGH

Vacancy in the secondary market peaked at a record high 15.6% in Q4 2020, compared to an annual average vacancy of 11% between 2016 and 2019. As of the end of 2020, vacancy rates in major submarkets ranged from 6.3% to 22.8%, higher than the 4.3% to 15% range of 2019. In 2021, we expect vacancy to further rise to 16.9%, up from our previous forecast of 13.5%. This is due to the amount of new completions, as we expect the delivery of 10,600 units, a big uptick from only 3,370 delivered in 2020. We expect vacancy rates to recede starting in H2 2022, given our projected rebound in office leasing and take-up from investors and end-users.

The subdued demand in 2020 was likely due to the impact of the pandemic on remittances and consumer confidence. From Jan. to Nov. 2020, cash remittances from Overseas Filipino Workers (OFWs) declined by 0.8% YOY to USD27.01 billion (PHP1.3 trillion). In contrast, remittances from Jan. to Nov. 2019 rose by 4.4% YOY. Meanwhile, consumer confidence slightly improved but remained negative in Q4 2020 at -47.9, a slight improvement from the record low of -54.5 recorded in Q3 2020[4].

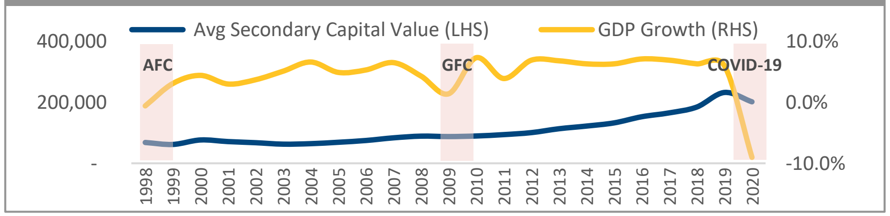
Vacancy in the secondary market was also adversely affected by weak office leasing in key business hubs. Average office vacancy as of Q4 2020 reached 9.1%, up from only 4.3% in 2019. Citywide vacancy increased, including the Bay Area, which posted a 6.7% vacancy rate in Q4, compared to 3.8% in Q3 2020. The increase was likely due to limited demand from the offshore gaming sector which affected residential leasing in the district. Colliers Philippines has observed limited residential enquiries in 2020. Firms that were initially looking for condominiums to accommodate foreign employees in the Fort Bonifacio and Makati areas put their residential leasing plans on hold. Despite the subdued residential take-up in 2020, we expect a slight improvement by end-2021. We expect this to be supported by the central bank's 4.0% growth projection in cash remittances[5] and low interest rates, which should sustain competitive mortgage rates. Bangko Sentral ng Pilipinas (BSP) Governor Benjamin Diokno noted that the bank intends to keep interest rates low in a bid to support the economy[6]. Data from the BSP's Q4 2020 Consumer Expectations Survey also showed that the percentage of households that plan on buying properties in the next 12 months showed an increase to 3.6%, up from 3.3% in Q3 2020.

RENTAL AND PRICE RECOVERY

At the end of 2020, prices and rents in the secondary market declined by 13.2% and 7.8%, respectively. The decline was sharper than the drop during the GFC[7] but less sharp than the decline during the AFC,[8] when prices and rents declined by 14.5% and 15.4%, respectively. In 2022, we expect prices and rents to increase by about 1.5% and 1.7% YOY, respectively. We expect the pace of growth to hinge on a rebound in local and foreign investor sentiment and a recovery in office space absorption.

We believe that the significant number of pre-terminations in 2020 contributed to the decline of rents across Metro Manila. Colliers Philippines estimates that condominium leasing pre-termination during the year more than doubled YOY due to repatriations, and employees that likely availed themselves of early retirement packages offered by their companies. We also observed owners offloading properties at near pre-sale prices and through loan assumptions. Projects up for re-sale within the fringe locations such as Cubao, Quezon City, Mandaluyong, Parañaque, and Muntinlupa offered discounts ranging from 7.0% to 24%. This is higher than the 5.0% to 23% discounts recorded in the CBDs such as the Bay Area, Fort Bonifacio, and Makati CBD.

Historical secondary prices and GDP growth, 1998 to 2020F



Source: Colliers International. [4]Bangko Sentral ng Pilipinas. [5]BusinessWorld, OFW remittance growth slows in Nov. [6]ABS-CBN News, BSP to keep rates low, says inflation 'least' of worries. [7]GFC = Global Financial Crisis. [8]AFC = Asian Financial Crisis

Primary Author:

Joey Roi Bondoc
Associate Director | Research | Philippines
+63 2 8858 9057
Joey.Bondoc@colliers.com

Contributors:

Donica Cuenca
Research Analyst | Research | Philippines
+63 2 8863 9068
Donica.Cuenca@colliers.com

Martin Aguila
Research Analyst | Research | Philippines
+63 2 8863 4116
Martin.Aguila@colliers.com

For further information, please contact:

Richard Raymundo
Managing Director | Philippines
+63 2 8858 9028
Richard.Raymundo@colliers.com