Physical stores to post higher vacancy as consumers, retailers go into wait-and-see mode

Insights & recommendations

No new retail space was completed in Q1 2021. Colliers expects lockdowns in Metro Manila and subdued consumer confidence to push retail vacancy to 16%, the highest since 2002. We expect demand slowdown and closure of physical stores to keep rents on a downward trend before a slow recovery begins by 2023.

Colliers recommends landlords to:

- Be more flexible to tenant requests for concessions
- Develop alternative dining strategies and repurpose vacant retail space

Meanwhile, we encourage retailers to maximize the use of technology and explore the roll-out e-wallets, messaging applications, and self-checkout schemes to boost demand across Metro Manila.

		Q4 2020- Q1 2021	Full Year 2021	2021–24 Annual Average
Demand	Colliers projects muted space absorption in 2021 as Filipinos are likely to avoid non-essential purchases. In our view, categories such as clothing and footwear are likely to continue to suffer from reduced spending.	-110,800 sq m	-51,700 sq m	292,200 sq m
Supply	We expect about 291,100 sq metres (3.1 million sq feet) of new retail space per annum from 2021 to 2024, down from our previous estimate. Malls within the Bay Area and Fort Bonifacio should drive retail supply during the period.	0 sq m	249,000 sq m	291,100 sq m

		Q4 2020 – Q1 2021 / End Q1	YOY / End 2021	Annual Average Growth 2020–24 / End 2024
Rent	In 2021, we project retail rents to decline by another 5%, after a 10% drop in 2020, due to vacancy increases caused by weakened demand and substantial new supply. We see rents rebounding, albeit at a slow pace, by 2023.	-4.6% PHP1,460	-5.0% PHP1,394	-0.8% PHP1,421
Vacancy	By year-end, Colliers projects vacancy to rise to about 16%, up from 12.5% in 2020, due to new supply and movement of retail online. In our view, lockdowns across Metro Manila and a limited propensity to consume are likely to push up vacancy rates.	+1.0pp 14.0%	+3.5pp 16.0%	-0.5pp 10.7%

Source: Colliers
Note: USD1 to PHP48 as of the end of Q1 2021. 1 sq metres = 10.76 square ft. Note: Regional malls have a gross leasable area of between 50,000 sq metres (538,000 square feet) to 99,999 sq metres (1.08 million square feet); Super-regional malls above 100,000 sq metres (1.08 million sq feet).

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Recommendations

Smart malls and aggressive use of online platforms

In our opinion, mall operators and retailers should maximize the use of technology and consumer analytics. We encourage developers to explore the viability of deploying consumer-assisting robots and cooperate with app developers to better capture consumer preferences and regularly send personalized content. Messaging app Viber has reported a 244% rise in business messages sent in 2020 compared to 2019.[1] Retailers and mall operators should encourage more consumers to use the application and capture analytics. MerryMart, meanwhile, recently announced the establishment of a consumer technology subsidiary, MM Consumer Technologies Corp. that is likely to allow the company to "deepen penetration and ensure relevance in the consumer market."[2]

Be more flexible to retailer requests for concessions

In our view, the Covid induced disruptions have compelled tenants to adopt a wait-and-see stance and look for opportunities to minimize costs during this period of uncertainty. We see mall operators revising their lease strategies and offering concessions to keep tenants. These include lower CUSA (Common Service Usage Area) fees, lower base rent and other incentives. Colliers believes that mall operators can help secure higher levels of occupancy by accommodating tenants' calls for concessions, especially as we see brick-and-mortar retailers struggling with sales and consumer traffic for the remainder of 2021.

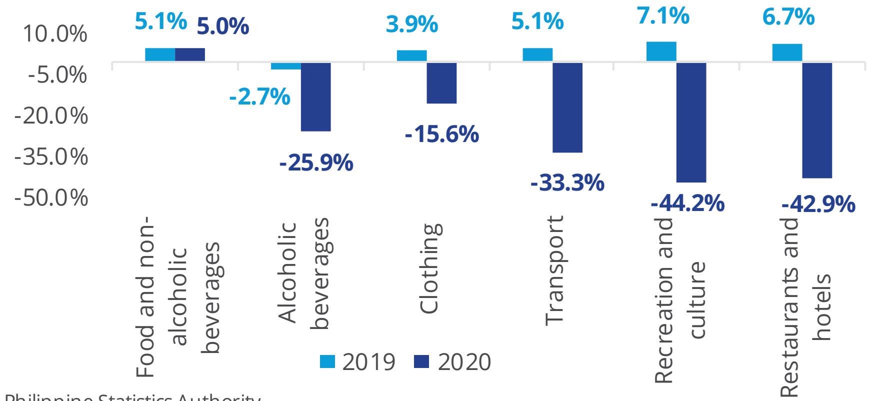
Alternative dining options and conversion of retail spaces

The imposition of enhanced community quarantine (ECQ) in the capital region has only highlighted the need for mall operators and food & beverage (F&B) retailers to reconfigure their spaces for consumers. We encourage mall operators to convert and repurpose their outdoor retail spaces into al fresco dining areas to comply with the physical distancing protocols mandated by the government.

[1] More businesses, advertisers shift to Viber amid pandemic
[2] MerryMart sets up consumer technology arm

In non-dining retail areas, mall operators should continue highlighting health and safety measures.

Impact of the Covid-19 pandemic on household consumption, 2019 vs. 2020



Source: Philippine Statistics Authority

No new supply

No new retail space was completed from Q4 2020 to Q1 2021. From 2021 to 2024, Colliers projects the completion of about 291,100 sq metres (3.1 million sq feet) per annum, 25% lower than our previous projection of 388,500 sq metres (4.2 million sq feet) per annum, due to construction delays caused by Covid.

Among the malls due to be completed during the period include the Gateway Mall 2, Mitsukoshi Mall, One Ayala Retail, SM City Grand Central, Parqal Mall and Ayala Triangle Retail located within new and established business districts.

Colliers believes that the imposition of a stricter form of quarantine in the capital region since March 29, 2021 is likely to disrupt construction schedules of upcoming malls. We also expect developers to defer completion until consumer demand and retailers' confidence to start occupying space improve.

Stricter lockdowns to raise vacancy

Metro Manila's retail vacancy rose to 14% in Q1 2021 from 12.5% in Q4 2020. The rise in vacancy was due to a number of brick-and-mortar stores shutting operations in several regional and super-regional malls in the capital region. The imposition of a stricter form of quarantine has also resulted in the closure of physical retail spaces. Major mall operators still reported low consumer traffic, estimated to be between 50-60% below pre-Covid levels. This continues to compel retailers to migrate online, reducing their offline footprint to lower costs, and for mall operators to re-think retail tenancy strategies post-Covid-19.

Colliers believes that consumer spending is likely to be limited to essential retail categories such as food and beverage (F&B), groceries, and medical services. Reasons include the rapid increase in Covid-19 cases, rising unemployment, inflation, and a slowdown in overseas remittances. For example, unemployment is up 10 basis points (bps) in a single month, and inflation rose 140 bps QOQ to 4.5%.

Among the retail segments likely to experience the pinch of limited consumer spending are family entertainment, as well as footwear and clothing. Brick-and-mortar retailers such as Gap, Old Navy, Dorothy Perkins and Topshop have already closed some of their physical outlets in selected malls in Metro Manila and have started to migrate online.

In our view, retail vacancy in Metro Manila is likely to peak at 16% by the end of 2021, the highest since 2002 due to the substantial new retail space to be completed as well as closure of brick-and-mortar shops.

Meanwhile, Colliers believes retailers providing essential goods and services are likely to absorb new physical retail space over the next 12 to 18 months. Based on our retail scans across Metro Manila and interviews with stakeholders, among the segments likely to absorb space are health services, miscellaneous/personal items, groceries and supermarkets and food and beverage.

Metro Manila retail vacancy, 2003-2021F (sq meters)

Source: Colliers

Rents continue to correct

Colliers projects rents to decline by another 5% in 2021, more than our previous forecast of a 2% drop, but still a slight improvement from the 10% correction in 2020. We see rents, however, slowly recovering by about 1% starting in 2023. We expect the rebound to hinge on the pace of the government's vaccination program and the confidence of retailers to occupy physical mall space. This is dependent upon the willingness of consumers to visit brick-and-mortar shops.

In a statement, the Philippine Retailers Association (PRA) Vice-Chairman Roberto Claudio said that the retail industry group projects a "soft" growth in retail sales of about 10% this year from 2020 levels. However, potential sales increases would still be 20-30% lower than 2019 or pre-COVID sales.[2]

Meanwhile, the central bank said that adverse impacts on economic performance are expected due to: 1) the imposition of a stricter lockdown in the capital region, 2) banks' tighter credit standards for loans to businesses and households, 3) uptick in inflation and 4) the inequitable distribution of Covid-19 vaccines.[3] Colliers believes that retail demand is also likely to be weighed down by these factors.

[2] Retailers expect revenue slump amid new curbs
[3] Recent Covid-19 restrictions likely to 'exert impact' on economy in Q1: BSP chief

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