GDP recovery signals property rebound

Philippine economy on the way to recovery as it officially exits recession

Insights & Recommendations

The Philippine economy grew by 11.8% YOY in Q2 2021, the fastest since the 12.0% recorded in Q4 1988. The growth is due to a low economic base, indicating the impact of the pandemic in the same period last year.

More than a year into the Covid crisis, Colliers believes that recovery will still hinge on the successful rollout of vaccines.

In our view, the sustained remittances from Filipinos working abroad will likely help sustain demand in the residential and retail sectors.

Colliers believes that condominium developers and hotel operators should continue lining up new projects and marketing facilities to meet pent up demand especially as the Philippine economy is up for a faster recovery beyond 2021. Developers should also be on the look out for opportunities in the industrial sector as the government ramps up its vaccination efforts and the consumption-led domestic economy continues to expand.

Philippine economy exits recession

The Philippine economy expanded by 11.8% in Q2 2021, marking the end of a pandemic-induced recession that lasted for five consecutive quarters. The Q2 2021 GDP growth was also the fastest since the 12.0% growth recorded in Q4 1988. NEDA, DOF and DBM[1] said that the primary reason for the robust performance “went beyond just the base effects, where a balance of restoring jobs and incomes of people were addressed.”[2] In Q2 2020, the country’s GDP contracted by 17%. However, prospects for economic recovery remain slim with the renewed mobility restrictions due to the rising number of Delta variant cases. Government agencies, credit rating and multilateral firms are now projecting a less optimistic full-year GDP growth of below 6% from their previous forecasts of between 7% to 9%.

Jabs to support property recovery

In our view, the property sector’s recovery is likely to be anchored by the pace of the government’s Covid inoculation program. As of August 24, 2021, the government has administered about 30.4 million doses of Covid vaccines, or 27% of the country’s population. About 136 million doses of vaccines should arrive for the remainder of the year. Health experts believe that herd immunity (70% of the population vaccinated) is likely to be achieved by Q2 2022.

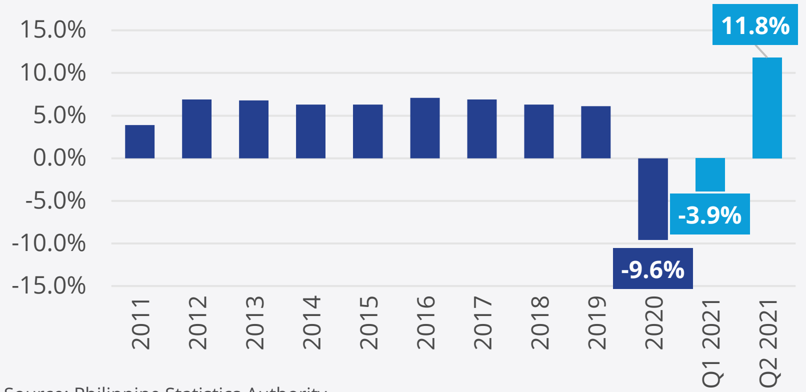
Colliers believes that the accelerated Covid inoculation and easing of mobility restrictions should support recovery in office leasing and residential demand. In our opinion, economic recovery should have a positive impact on the country’s property sector starting 2022.

Sustained OFW remittances

Data from the Bangko Sentral ng Pilipinas (BSP), or the central bank, show that Overseas Filipino Worker (OFW) cash remittances from January to June 2021 reached USD14.9 billion (PHP754 billion), up 6.4% from the USD14.0 billion (PHP708 billion) in the same period of last year. This is despite the repatriation of about 641,717 OFWs as of the end of July 2021.[3]

In our view, the sustained flow of OFW remittances should drive the demand for affordable to mid-income (PHP1.7 to PHP6 million or USD33,700 to USD118,900) residential units within and outside of Metro Manila. In 2021, the central bank projects OFW remittances to grow by about 4%.

Historical Gross Domestic Product (GDP), 2011- Q2 2021



Source: Philippine Statistics Authority

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Note: 1 sq m = 10.76 sq ft. USD1 = PHP50 as of the end of Q2 2021. Traditional occupiers includes companies in various sectors such as legal, engineering and construction, government agencies and flexible workspace operators. [1]NEDA = National Economic and Development Authority, DOF = Department of Finance, DBM = Department of Budget and Management; [2]Recession ends as GDP grows by 11.8% ;[3]Over 600,000 overseas workers return to Philippines during pandemic

Office: Firms undertake flight-to-value and quality

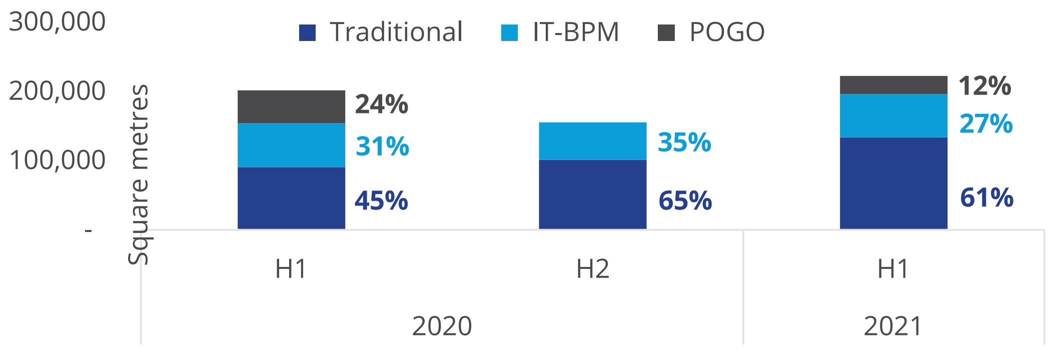
Office space absorption in Metro Manila continued to remain in negative territory for the fifth consecutive quarter at -88,000 sq metres (-946,900 sq feet), as traditional and POGO firms vacated office spaces and demand for new office spaces remain subdued. This has resulted in office vacancy rising to 12.7% in Q2 2021 from 11% in Q1 2021. Colliers believes that vacancy is likely to reach 15.6% by the end of 2021 from our previous year-end forecast of 12.5% due to the new supply coming online as well as weak pre-leasing.

Meanwhile, office transactions in Q2 2021 reached 84,700 sq metres (911,400 sq feet), up 154% from the 33,400 sq meres (359,400 sq feet) recorded in Q2 2020 as occupiers expand and implement flight-to-value and flight-to quality measures. Ortigas CBD led office transactions during the period with 26,200 sq metres (281,900) as this submarket offers lower base rents accompanied by good quality buildings for office occupiers.

Colliers believes that among the firms that are likely to lead office space take-up in the next six to 12 months are outsourcing and traditional firms as the government accelerates its vaccination program across the capital region.

As office leasing demand remains subdued, Colliers recommends that occupiers be on the lookout for Prime and Grade A buildings especially for long-term leases which are likely to be a bargain in 2021. In 2020, average office rents in Metro Manila declined by about 17%. We also recommend tenants to explore the viability of flexible workspace and serviced offices for their immediate space requirements. Meanwhile, landlords should be flexible in terms of occupiers' requests such as rent-free periods, partial termination, fit-out financing and delayed escalation.

Office transactions, H1 2020 – H1 2021



Source: Colliers

Residential: Demand in fringe areas emerges

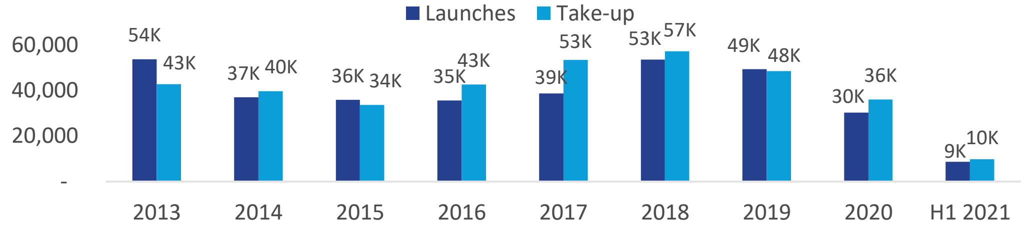
In Q2 2021, Colliers saw the delivery of 2,235 condominium units, a significant improvement from the lack of new completions recorded in Q2 2020. We project a continuous rebound in condominium completions until the end of 2021 as we see the delivery of about 10,060 units, a threefold increase from the 3,370 units delivered in 2020. About 62% of the total will likely come from the Bay Area and Fort Bonifacio where bulk of current supply is also located.

Vacancy further increased across all submarkets reaching 17.1% in Q2 2021 as we observed dampened demand in business districts due to the continued slowdown in office space absorption. Colliers expects vacancy to rise to 17.6% by the end of 2021 from 15.6% in 2020. We also recorded a correction in prices and rents in Q2 2021, declining by 3.2% and 1.7%, respectively. While we anticipate rates to continue dropping until the end of the year, gradual reabsorption of office spaces provides a glint of optimism starting 2022.

Launches and take-up dropped further in H1 2021 as we recorded a YOY decline of 14% and 52% in launches and take-up, respectively. Despite subdued overall figures, Colliers continues to see an uptick in demand for mid-income to upscale[4] projects which contributed 82% of launches and 95% of take-up in H1 2021. We expect demand to continuously be driven by these price segments as buyers look for properties within integrated communities along the fringes of major business districts. From 2018 to H1 2021, we have noted a growing preference for properties within fringe locations as take-up consistently overtook launches in these areas.

Colliers believes that the success of the government's vaccination program and the subsequent economic rebound will likely propel residential recovery post-Covid. We recommend investors and buyers to explore the investment opportunities in fringe areas which are near transport hubs and infrastructure developments. On the developer side, we encourage developers to line-up projects in time for market recovery and to consider strategic landbanking in fringe locations that are within proximity to infrastructure projects.

Metro Manila historical pre-selling launches and take-up, 2013 – H1 2021



Source: Colliers

[4]Mid-income to upscale = PHP3.2 million to PHP7.9 million (USD64,000 to USD158,000)

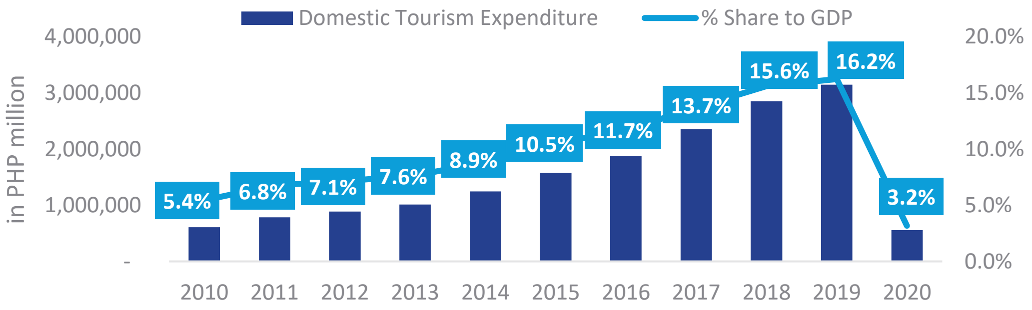
Hotel: Domestic tourism to lead recovery

In H1 2021, Colliers saw hotel occupancy slightly rising to 24% from 20% in H2 2020 as the Department of Tourism (DOT) allowed thirteen 4- and 5-star hotels in the capital region to operate for leisure stays. In our view, hotel occupancies are still likely to remain below 30% by the end of 2021 as we do not see a rebound in foreign arrivals for the remainder of the year. The renewed mobility restrictions as well as the growing number of Delta variant cases in the country continue to hamper the leisure sector's recovery.

While international travel restrictions remain in place, the DOT is shifting its focus on domestic tourism where they expect the earliest recovery of domestic travel by 2022, when demand is likely to reach 90% of 2019 levels, or at worst by 2024.[5] The DOT projects about 36.5 million domestic trips in 2021, before a pickup in 2022 of about 84.8 million trips. However, these figures are still lower than the record-high in 2019 of about 110 million domestic trips. Colliers believes that domestic travel will drive the leisure sector's recovery first, with the government's thrust of improving hotel occupancies and reviving local jobs.

Colliers recommends that hotel operators provide flexibility on their guest's bookings such as free cancellations, room upgrades and booking 24 hours before arrival. Hotel staff may also undergo training and refresher programs to provide efficient and seamless hotel experience for guests post-Covid. Trainings on the new guidelines and cleaning practices in common areas and hotel rooms as well as proper food and beverage (F&B) etiquette. These allow hotel operators to safely operate while adhering to the government-mandated health and safety protocols.

Domestic tourism share to GDP, 2010-2020



Source: Philippine Statistics Authority

[5] Domestic tourism's recovery in 2022 at earliest, 2024 at worst.

Industrial: Cold storage demand rises

Opportunities and challenges for the Philippine cold chain sector

Opportunities	Challenges
Need for vaccine and medicine storage	High operational costs
Rising demand for frozen food	Limited supply outside Metro Manila
Growing online supermarket sales	Temperature variations during storage, transportation, and distribution
Lockdown economy	Traffic congestion
Consumption-driven economy	

Source: Colliers

In H1 2021, Colliers saw a slight improvement in industrial vacancy in the Cavite-Laguna-Batangas (CALABA) corridor as it slid to 5.6% from 5.7% in H2 2020. The increase in take-up can be attributed to the growing demand for storage space among e-commerce and fast-moving consumer goods (FMCG) firms. Despite the impact of Covid, the industrial sector thrives further as the manufacturing, warehousing, and logistics sectors continue to soar with the lockdown economy in place. We expect these segments to continue driving the demand for industrial spaces beyond 2021 as more retailers and consumers shift to online platforms.

Another segment of the industrial sector gaining traction are cold chain facilities. With the steady growth of e-commerce, we believe that the demand for cold storage needed for perishable and essential products will likely grow as well. The government's vaccine procurement will also drive the demand for more cold chain facilities especially in areas outside Metro Manila where supply is scarce. Due to its continuous growth, the Board of Investments (BOI) projects revenue from the cold chain sector to reach PHP20 billion (USD417 million) by 2023[6].

Colliers recommends developers and investors to continue capturing the demand for cold storage facilities. We encourage developers to retrofit and refurbish existing warehouses to include cold storage features and to consider expansions in areas tagged by the government as potential agro-industrial ecozones such as Tarlac and Taguig[7] where demand for cold chain assets will likely rise in the next three to five years.

[6] BoI sees cold chain industry revenue at P20 billion by 2023; [7] Taguig City being evaluated as potential agri-industrial site

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