PROSPECTS FOR POST-PANDEMIC RECOVERY AFTER A PERIOD OF UNCERTAINTY

Sluggish office market stifles residential growth as some economic indicators point to a glimmer of recovery

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Insights & Recommendations

Residential sales and leasing are adversely affected by a lackluster office market. The condominium segment is also reeling from subdued business and consumer confidence.

Colliers retains its earlier forecast of price and rental correction in 2020, albeit at a softer pace for price as completion has been delayed by the lockdown.

Meanwhile, economic data point to some recovery in 2021. To prepare for the anticipated rebound, Colliers recommends that developers continue offering flexible payment terms; maximize property technology platforms; and monitor popular price segments and locations for condominium pre-selling such as mid-income and upscale*.

Meanwhile, buyers and renters should be on the lookout for units being offered at larger discounts.

		Q3 2020	Full Year 2020	2020–22 Annual Average
Demand	> Take-up in the secondary market which covers completed units remains subdued due to a slowdown in demand from foreign employees including those from the POGO[1] sector. Pre-sales in 9M 2020 reached 24,900 units, down 28% YOY.	-952 units	-536 units	5,890 units
Supply	> Construction delays continue to hound completion in Metro Manila. Colliers now sees the delivery of new units in 2020 dropping by close to 45% compared to our estimate at the start of the year.	625 units	6,000 units	7,240 units

		QOQ / End Q3	YOY / End 2020	Annual Average Growth 2019–22 / End 2022
Rent	> The rental market continues to face headwinds. Colliers sees average rents dropping by 7.7% this year before a slow recovery starting H2 2021. The slow rebound should be anchored by a pick-up in office leasing.	-3.4% / PHP744	-7.7% / PHP711	1.0% / PHP747
Vacancy	> Colliers sees vacancy approaching the mid-teens due to softer sales and leasing in the secondary market. Colliers projects vacancy to start improving in H2 2021 as consumer and business confidence rebound.	+1.1pp / 12.9%	+4.3pp / 15.3%	-1.6pp / 12.1%
Capital Values	> We are retaining our initial forecast that prices will likely drop in 2020, albeit at a slower pace as completion has slowed. We see a slight rise in prices in 2021 due to improved investor interest and consumer confidence.	-6.6% / PHP215,800	-13% / PHP202,200	4.3% / PHP210,800

Source: Colliers International. Note: USD1 to PHP48 as of the end of Q3 2020. Demand represents net take-up in the secondary market (in units). Rent and capital values are per sq metre. *Mid-income = PHP3.2 million to PHP5.9 million (USD66,700 to USD122,900). Upscale = PHP6 million to PHP7.9 million (USD125,000 to USD164,600). [1]POGO = Philippine Offshore Gaming Operators.

RECOMMENDATIONS

Use of property technology (proptech) platforms

Colliers recommends developers to further tap technology in marketing their projects. Offering residential units thru state-of-the-art property technologies may help attract potential investors, especially with social distancing protocols constricting physical inspection of condominium projects. In our opinion, developers should maximize virtual reality (VR) tours, digitized accounting systems for payments (monthly, utilities, and association dues), and automated communication platforms for tenants and the property management providers.

Unit owners to consider residential asset management services

We encourage developers and individual investors to consider tapping residential asset management services. These include property marketing, upkeep, repairs, documentation, and payment services for association dues and taxes. Colliers encourages small to mid-sized developers with a substantial number of ready-for-occupancy (RFO) units as well as investors leasing or reselling multiple units to consider this option.

Continue offering attractive and flexible payment terms

In our opinion, developers should continue to offer flexible payment terms and attractive packages to potential condominium buyers in Metro Manila. Over the past six months, we have seen developers offering easy 'move in' schemes for their RFO units while some developers offer free appliances and laptops. Among the more common offerings in the pre-selling market include a 10% to 15% discount on total contract prices and extended down payment periods. Colliers believes that this is among the factors that contributed to decent pre-selling take up figures in H1 2020. During the period, sales held firm at 19,900 from 22,000 units sold in H1 2019.

Monitor RFO units offering above-market discounts

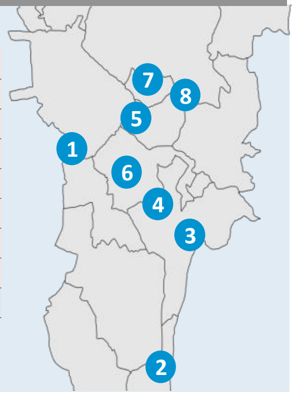
In our view, investors should also be on the lookout for areas that offer bigger discounts on lease rates and prices. In our opinion, RFO units in the Bay Area and Southern portions of Metro Manila are likely to be offered at larger discounts due to large number of unsold condominium inventory and slower demand from the offshore gaming sector.

2020 COMPLETION TO DROP 45%

In Q3 2020, more than 620 units were delivered with the completion of The Florence at McKinley Hill Tower 3 in Fort Bonifacio and Eastwood Global Plaza Luxury Residence in Eastwood City. Due to the pandemic, we now project the delivery of 6,000 units in 2020. This is a significant drop from our estimate of 10,940 new units at the start of 2020. Turn-over of projects, especially in the Bay Area, was delayed due to labor constraints during the imposition of a stricter lockdown in Metro Manila especially in Q2 2020. Colliers noted that the average turn-over grace periods adopted by developers now ranges from six to 12 months from only three to six months pre-pandemic.

Metro Manila residential stock forecast, end-2019 and 2022 (units)

Location	End of 2019	End of 2022	% change
1 Bay Area	22,430	37,050	65.2%
2 Alabang	4,430	5,380	21.4%
3 Fort Bonifacio	37,290	41,180	10.4%
4 Rockwell Center	5,270	5,830	10.6%
5 Ortigas Center	18,730	19,190	2.5%
6 Makati CBD	28,220	28,970	2.7%
7 Araneta Center	4,550	4,550	0.0%
8 Eastwood City	9,170	9,630	5.0%
Total	130,090	151,780	16.7%



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.

Source: Colliers International.

VACANCY RISES FURTHER

In Q3 2020, Metro Manila secondary residential market vacancy further increased to 13% from 11.8% in Q2 2020. The secondary market consists of completed projects that have been turned over to unit owners. In the Bay Area, we expect the delivery of more than 2,500 units in Q4 2020, resulting in the completion of 2,680 units for 2020. In comparison, annual completion in the Bay Area reached an average of 1,600 units from 2012 to 2015, prior to the entry of POGOs. From 2017 to 2019, delivery reached 4,500 units per annum. By the end of 2020, we expect Metro Manila vacancy to reach 15.3%, higher than our initial projection of 14.6%.

The more apparent impact of the pandemic on consumer confidence and OFW[2] remittances is likely to spill over to residential demand. From January to August 2020, overseas Filipinos' cash remittances to the country declined to USD19.3 billion (PHP925.7 billion) from USD19.8 billion (PHP950.8 billion) in the same period of 2019. Based on the Q3 2020 Consumer Expectations Survey of the Bangko Sentral ng Pilipinas (BSP) or central bank, consumer confidence decelerated to -54.5%, a record low since the poll started in 2007. The percentage of households that plan on buying properties in the next 12 months also plummeted to a record-low 3.3%.

For local investors, concerns on sudden unemployment and reduced incomes as more businesses close will likely contribute to a gloomy sentiment in the residential market.

Aside from local employees, leasing across the capital region is also adversely impacted by the slower influx of foreign employees. Based on Colliers Philippines data, office vacancies have been rising across major business districts in Metro Manila. Makati CBD, for instance, which posted office vacancy of about 1% from Q2 2018 to Q1 2020 recorded a vacancy of 2.1% in Q3 2020. Makati CBD has traditionally been a hub for multinational and outsourcing firms. Fort Bonifacio, which houses higher-value outsourcing firms, saw its vacancy rise to 5.2% from 3.5% by the end of 2019 while the Bay Area, which is a hub for offshore gaming employees, recorded a vacancy of 3.8% from 0.3% by the end of 2019.

Colliers Philippines has observed that several expatriates have pre-terminated leasing contracts as they cannot go back to the Philippines due to global travel bans. Some foreign teachers had to stay in their home countries as international schools have implemented online learning. Meanwhile, several POGO employees have already left the Philippines as their firms have ceased operations due to concerns on the rising number of COVID-19 cases in Metro Manila and regulatory roadblocks including imposition of higher taxes and non-issuance of permits to operate.

Meanwhile, a number of economic indicators provide a glimmer of optimism. OFW cash remittances contracted by 2.6% from January to August 2020, much slower than the 10% to 20% drop projected by some analysts[3,4].

Aside from the government-projected rebound of remittances in 2021[5],other potential recovery enablers include low mortgage rates (at 7.4% as of Q3 2020 from 21% during the AFC[6]); a potential rebound in office leasing in H2 2021; and a likely pick-up in demand from local and foreign end-users and investors as global economies start to recover and local businesses re-open.

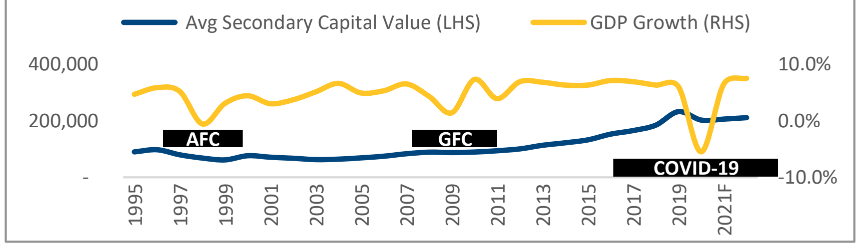
RENT AND PRICE RECOVERY: 2021

Colliers sees rents and prices correcting in 2020 due to several reasons. For one, some unit owners with businesses affected during the lockdown opted to offer their properties at lower prices or lease rates. Selected units for lease in major CBDs also suffered from pre-termination as some expatriates could not go back to the Philippines due to the travel ban; while some went back to their home countries as their companies closed shop, which is the case for POGO employees. Colliers has observed that certain landlords have started waiving annual rental increase for lease renewals, making the leasing market more favorable to lessees. This favors some expatriates that received pay cuts.

By the end of 2020, we see prices in the secondary market declining by 13% while rents are likely to drop by 7.7%. The pace of decline for prices is now slower due to a downward adjustment in new supply for 2020. From 2021 to 2022, we expect rents and prices to post an annual average growth of 2.5% and 2.1%, respectively.

Despite our projected drop in prices in 2020, Colliers believes that property remains a viable investment despite the pandemic. While prices and rents declined in previous crises, historical data show that these residential demand indicators tread the growth trajectory of the economy after a period of economic uncertainty.

Historical secondary prices and GDP growth, 1995 to 2021F



Source: Colliers International. [2]OFW = Overseas Filipino Workers. [3]BusinessWorld, Remittances seen to fall up to 10%. [4]The Philippine Star, Remittances buck pessimistic expectations to peak in July. [5]Philippines News Agency, Demand for OFWs to help remittances recover in 2021. [6]Asian Financial Crisis. Bangko Sentral ng Pilipinas (BSP).

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