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RESHAPING METRO MANILA RETAIL LANDSCAPE

Mall operators and retailers respond to pandemic-induced interruptions as consumer traffic remains sporadic

Insights & Recommendations

The pandemic has caused a significant interruption to the long run of growth of the Philippines' consumer-driven economy, severely affecting mall operators and retailers. Colliers believes that the COVID-19-induced interruptions have altered the immediacy in which retailers must innovate to remain relevant.

Aside from complying with health measures and social distancing protocols mandated by the government, mall operators should also monitor changes in households' spending patterns, repurpose vacant mall space, and continue providing concession to struggling tenants.

Retailers, on the other hand, should aggressively differentiate by tapping technological advantages and pursuing omnichannel strategies.

		Q2 2020-Q3 2020	Full Year 2020	2020-22 Annual Average
 Demand	> Retailers engaged in food and beverage (F&B), medical and other essentials should drive retail space take-up from 2020 to 2022. We project a muted brick-and-mortar space absorption from non-essential retailers.	 -164,000 sq metres	 -59,800 sq metres	 226,300 sq metres
	 Supply	> Colliers projects the completion of new malls to decline by 87% in 2020 due to the construction delays caused by the lockdown and subdued retail space take up. Delivery of new supply is likely to recover in 2022 as developers tap pent up demand.	 21,800 sq metres	 53,100 sq metres
 Rent	> A fragile rental market is likely to persist beyond 2020. Colliers sees rents dropping due to slower consumer spending which should result in a subdued retail space absorption. We project rents to pick up starting 2022.	Q2 2020-Q3 2020 / End Q3  -6.0% PHP1,531	YOY / End 2020  -10.0% PHP 1,468	Annual Average Growth 2019-22 / End 2022  -2.2% PHP 1,518
	 Vacancy	> From 2020 to 2022, we project vacancy to rise as personal consumption and foot traffic remain subdued, resulting in more closures. We see entertainment centres and food courts suffering from physical distancing.	 +2.5pp 12.5%	 +4.2pp 14%

Source: Colliers International. Note: USD1 to PHP48 as of the end of Q3 2020. 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).

RECOMMENDATIONS

Monitor changes in households' spending patterns

For malls that will likely open for the next 12 to 24 months and retailers that are planning to capture holiday spending, it is important that they closely monitor spending patterns of households and how they apportion incomes. For instance, retailers should closely observe the Philippine Statistics Authority (PSA)-provided breakdown on household expenditure¹. As of Q2 2020, when the strictest part of the lockdown was imposed all over Metro Manila, food and non-alcoholic beverages demand continued to grow while footwear and clothing decelerated by 40% YOY. Spending on restaurants and hotels plummeted by 66% during the period. In our view, these changes in consumer preferences should be factored into the retail mixes of upcoming malls.

Conversion and repurposing of vacant spaces

Landlords seeing rising vacancies in their malls should explore the viability of converting these vacant spaces into flexible workspaces, subject to strict compliance with social distancing measures. This is crucial given that malls are near residential communities, this arrangement should significantly reduce employees' commuting time, and improve work-life balance. We recommend developers² explore the possibility of converting vacant spaces into fulfillment centres or micro warehouses to enable retailers reach last mile deliveries.

Differentiate using technological advantages

Due to the pandemic and lockdowns, Filipino consumers have learned to lean more heavily on shopping from the comfort of their homes. With several retailers already shifting online and partnering with delivery platforms, Colliers expects competition among retailers to further intensify. Hence, as the need to differentiate and outperform competitors heightens, retailers should aggressively and proactively look for technological advantages. Colliers encourages retailers to partner with app developers and maximize mobility maps to gauge consumer behavior and how it evolved during the pandemic. Stakeholders should also consider the possibility of implementing scan-and-go technologies where shoppers use smartphones to scan and pay products as this reduces contact points and is more convenient.

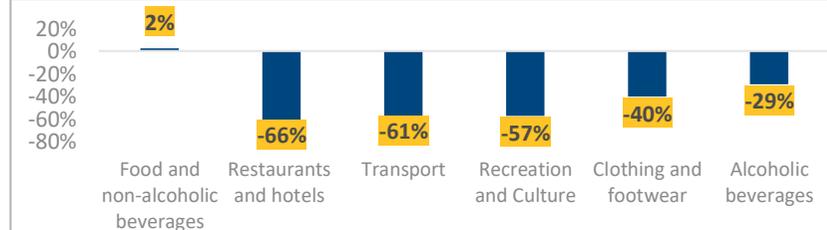
¹Philippine Statistics Authority. [Household Final Consumption Expenditure by Purpose, Growth Rates](#)

²Alegado, S. & Yap, C. [Manila Malls May Become E-Commerce Storage Amid Retail Slump.](#)

Aggressive implementation of online platforms, personal shopping services

Some mall operators have introduced curbside pick-ups where customers are offered a safe option to get their orders. Others have rolled out personal shopper services to reduce the risk of transmitting the COVID-19 and to enable contactless shopping. Ayala Land is offering DeliverEasy and Ayala Malls Neighborhood Assistant (ANA); Megaworld has launched its lifestyle delivery app Pick.A.Roo; SM Supermalls has introduced Get and Go which offers curbside and drive-through pick-ups for essential needs while Robinsons Malls is offering Ring Rob, RPersonal Shopper and RDelivery services. A number of retailers have also been aggressive in rolling out online shopping strategies. Swedish furniture giant Ikea recently announced that they will likely open their online store months before the completion of their physical store in the Bay Area. H&M has partnered with Zalora to setup its first e-commerce marketplace while Merrymart is pioneering the dark grocery stores concept that intends to provide a 15-minute delivery service in selected cities in Metro Manila.

Impact of the lockdown on household consumption, Q2 2020



Source: Philippine Statistics Authority

LIMITED NEW STOCK

As of the end of 9M 2020, about 53,100 sq metres (571,400 sq feet) of new retail space has been completed. This is about 87% lower compared to our forecast of 393,700 sq metres (4.2 million sq feet) at the start of the year. From 2020 to 2022, about 317,600 sq metres (3.4 million sq feet) of new leasable space is scheduled to be completed per annum, representing a 10% drop from our earlier projection of a yearly delivery of 351,900 sq metres (3.8 million sq feet).

² Ibanez, J. [PCCI Proposes rent relief for MSME commercial tenants.](#)

Among the malls lined up for completion from 2021 to 2023 are Mitsukoshi Mall, SM City Grand Central, Gateway Mall 2, One Ayala Retail, Parqal Mall, Greenhills Center and SM Mall of Asia Expansion.

Colliers expects delays in the completion of a number of regional and super regional malls especially those that are likely to be anchored by cinemas, family entertainment centres, and foodcourts as these retail segments' viability is hounded by the strict implementation of physical distancing measures.

Starting 2021, Colliers believes that the pace of construction of new malls will likely hinge on the improvement of Filipino households' consumer confidence and purchasing power; and the retailers' propensity to continue taking up physical mall space despite the growing popularity of online shopping.

VACANCY MATCHES AFC LEVEL

In Q3 2020, vacancy among malls in Metro Manila rose to 12.5% from 10% in Q1 2020. During strict lockdowns in Metro Manila, major mall operators reported as much as 50% drop in consumer traffic compared to pre-COVID levels.

With lingering economic uncertainty across the country, consumers are still likely to focus spending on essential retail such as medicines, groceries, and food and beverage (F&B). We see this adversely affecting the retail space absorption of non-essential retailers, likely resulting in more closure in the next six to 12 months.

Colliers believes that vacancy across Metro Manila is likely to peak at 14% in 2020 as retailers maximize online platforms and rationalize brick and mortar space occupied. A number of footwear and clothing brands have closed their physical mall space as they fully migrated to online selling. Some retailers of personal accessories and miscellaneous items have also expanded their online reach and are not likely to take up new brick-and-mortar space in the next six to 12 months.

The Asian Financial Crisis (AFC) in 1997 and the aftermath were a tumultuous period for Metro Manila retail. Colliers saw a record-high 19% in 2001 after posting a 14% vacancy in 1999.

Metro Manila retail vacancy, 1998-2022



Source: Colliers International

RENTAL RECOVERY IN 2022

Consumer demand is unlikely to recover for the remainder of 2020. The fourth quarter is traditionally a strong period for retail spending in the Philippines but slower remittance inflows from overseas Filipinos, rising unemployment, decreased disbursement of employees' holiday bonuses, and a generally bleak consumer sentiment based on the central bank's latest survey³ indicate that retail spending is likely to languish by the end of 2020, which may even persist into H1 2021.

Given a bleak retail landscape, Colliers projects a 10% decline in rents in 2020. This is deeper than the 7.3% drop in 2009, during the Global Financial Crisis (GFC). We see average rents declining by another 2% in 2021 before a slow rebound (+1%) starting 2022.

Undeniably, the pandemic and strict quarantine measures all over the country have negatively impacted retail sales and consumer sentiment. In our view, all facets of retail have been disrupted; however the severity and impact vary across sectors. Based on the results of Colliers Philippines' mall scan across Metro Manila, non-essential retailers like footwear and clothing stores, cinemas, fitness gyms, and family entertainment centres have borne the brunt of social and physical distancing protocols while essential retailers such as supermarkets, pharmacies, and home improvement shops experienced little to no decline in sales. Supermarkets particularly benefitted in the beginning stages of lockdown as consumers stocked up on supplies such as food and beverage and medicines. A number of mall operators expect the retailers from the essential segment to expand retail footprint in the next 12 to 18 months.

³Bangko Sentral ng Pilipinas Q3 2020 Consumer Expectations Survey (CES)

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