COLLIERS QUARTERLY

RESIDENTIAL | MANILA | RESEARCH | Q4 2018 | 6 FEBRUARY 2019

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NEW RECORD HIGH

Condominium pre-sales reach historical high, but slower launches threaten 2019 take-up

Summary & Recommendations

Completion of condominium units picked up in H2 2018 as developers captured the strong demand. Despite the delivery of new units into the secondary market, Colliers recorded lower vacancy in Q4 2018. The number of pre-sold units recorded a new record high in 2018. Colliers believes that take-up in the pre-selling market will partly be affected by our projected slowdown in launches over the next 12 months due to the dearth in developable land and continued rise in land prices.

To bridge the supply gap, Colliers recommends more aggressive and strategic land banking on the fringes of business districts as well as near selected stations of the Manila subway.

		Q4 2018	Full Year 2019	2018–21 Annual Average
Demand	> The secondary market, which covers completed units in key business hubs, will likely be sustained by a mix of demand from foreign and local professionals.	▲ 4,800 units	▲ 8,500 units	▼ 6,500 units
Supply	> From 2019 to 2021, we forecast completion of about 7,000 new condominium units per annum, the bulk coming from the Manila Bay Area and in Fort Bonifacio.	▲ 5,100 units	▲ 9,300 units	▼ 7,000 units

		QOQ / End Q4	YOY / End 2019	Annual Average Growth 2018–21 / End 2021
Rent	> Colliers sees rents growing by only 0.6% per year from 2019 to 2021 due to the upcoming new supply.	0.7% ▲ PHP721	0.6% ▲ PHP725	0.6% ▲ PHP733
Vacancy	> Over the next 12 months, we forecast vacancy of 10.5%. From 2020 and 2021, Colliers expects vacancy to be 10.3% as the delivery of new supply tapers off.	-0.2%pp ▼ 10.6%	-0.1%pp ▼ 10.5%	-0.1%pp ▼ 10.3%
Capital Values/ Yields	> Colliers is revising its forecast of condominium price increase from 2019 to 2021 upward to 4.7% yearly from the previous 3.0%.	5.2% ▲ PHP184,000	4.5% ▲ PHP193,000	4.7% ▲ PHP211,000

Source: Colliers International

Note: [1] USD1 to PHP53 as of end-Q4. 1 sq m = 10.76 sq ft; Demand represents completed condo units that are for lease or resale.

Colliers INTERNATIONAL

RECOMMENDATIONS

Residential demand in Metro Manila's primary and pre-selling segments remains stable. To seize opportunities in the sector, Colliers encourages developers to implement the following measures:

Explore residential potential in Quezon City, Ortigas Center

The groundbreaking for the Manila subway, the most expensive project approved by the government, is planned for Q1 2019, with the first three stations in Quezon City – Mindanao Avenue, Tandang Sora, and North Avenue – due to be completed in 2022. Colliers sees Quezon City benefiting from the planned infrastructure as seven of the 13 metro stations are in Quezon City, along with improving connectivity given the construction of the Metro Rail Transit-7 (MRT7) and the common LRT-MRT station.

With renewed interest in Quezon City, we see the proliferation of more integrated communities similar to Ayala Land's and Eton Properties' existing estates. Among the stations well suited for townships is North Avenue given its interconnection with other mass transportation systems. We see Quirino and Tandang Sora stations providing residential options supporting offices near the North Avenue station. In our opinion, the development of new residential towers in Ortigas is also feasible as new condominium units are likely to complement the new office space to be developed in the business hub from 2019 to 2021.

Hence, we encourage developers with parcels of land in Quezon City and Ortigas to explore the development of residential projects in these areas.

More upscale projects in the Bay Area

Colliers believes that the Bay Area is an attractive location for wealthy families from Southern Luzon and cities in Metro Manila that are upgrading to condominium living. In addition, the Bay Area is likely to remain an attractive location due to sustained demand from offshore gaming firms, its proximity to Manila International Airport and ease of access to other business hubs across the country's capital.

Aggressive development in the fringes

Colliers believes that due to the lack of developable land in major business districts such as Makati CBD and Fort Bonifacio, developers should look to fringe areas as sites for future residential developments. Over the past 12 months, Colliers has observed that 77% of newly-launched units were found in Quezon City, Manila, Caloocan-Malabon-Navotas (CAMANAVA), Ortigas fringes, Makati fringes, and Pasay-Paranaque areas while the remaining 23% were in major CBD's. In our opinion, residential projects in these areas continue to serve the end-user demand of mid-income households that are upgrading to condominium living. Other projects in northern Quezon City should attract households from as far as Bulacan, especially with the scheduled completion of the Metro Rail Transit (MRT) 7 in 2021. Those projects in Southern Metro Manila should entice families from Southern Luzon provinces of Cavite and Laguna.

Residential supply (Units)

Location	As of 2018 stock	2021F	Total	% Change
Alabang	4,230	-	4,430	4.7%
Araneta Center	4,550	-	4,550	0%
Eastwood City	8,540	-	9,170	7.4%
Fort Bonifacio	32,230	2,100	39,800	23.5%
Makati CBD	27,020	240	28,700	6.2%
Manila Bay Area	19,850	160	28,800	45.1%
Ortigas Center	17,940	410	19,300	7.6%
Rockwell Center	4,510	-	5,270	16.9%
Total	118,870	2,910	140,020	17.8%

Source: Colliers International

COMPLETION BEATS PROJECTION

More than 5,100 condominium units were completed in Q4 2018, bringing the 2018 completion to close to 11,800 units. Despite a ramped up pace of completions that started mid-2018, the 2018 total is 26% lower than the 15,900 units completed in 2017. Metro Manila's condominium stock now stands at 118,900 units, about 11% higher than the end of 2017 stock of 107,100.

In Q4 2018, Fort Bonifacio and the Manila Bay Area accounted for 75% of all units delivered. Both sub-locations continue to benefit from brisk demand from offshore gaming employees as well as local and foreign investors.

Among the projects delivered in Fort Bonifacio are Avida Towers Verte, Central Park West, and Grand Hyatt Residences by Federal Land. In the Manila Bay Area, only one project was completed – Shore Residences Building 3 – which added 2,000 units to the Manila Bay Area's condominium stock.

The Manila Bay Area continues to enjoy brisk demand from Chinese offshore gaming firms as well as a mix of foreign and local investors. Colliers sees this being sustained over the next 12 months following the absorption of additional office space by the offshore gaming firms in the thriving business district.

Meanwhile, new units were added to the stock of other business hubs such as Makati CBD, Ortigas Center, and Rockwell Center following the completion of The Lerato Tower 3, Twin Oaks Place East Tower, and The Proscenium at Rockwell's Kirov and Sakura towers.

For 2019, Colliers projects the completion of about 9,300 new condominium units, with 74% of new supply to come from Fort Bonifacio and the Manila Bay Area.

From 2019 to 2021, we see the delivery of about 7,000 new condominium units per annum. By the end of 2021, Fort Bonifacio will likely retain its position as the largest residential condominium market in Metro Manila with close to 40,000 units. We see Manila Bay Area overtaking Makati CBD as the second largest market as Colliers projects stock of 28,800 versus Makati CBD's 28,700. These three business districts continue to benefit from a mix of demand from local professionals and investors as well as end-users.

By the end of 2021, Colliers expects major business districts in Metro Manila to house about 140,000 completed condominium units, up 18% from 118,800 units in the end of 2018.

VACANCY DECLINES FURTHER

Despite the delivery of more condominium units in the secondary market, take-up amongst completed units that are either for lease or re-sale remains strong with overall vacancy in Metro Manila down for the fifth straight quarter in Q4 2018. Vacancy is down to 10.6% from 10.8% in Q3 2018.

Over the next 12 months we see Metro Manila posting a vacancy of 10.5%. From 2020 to 2021, Colliers expects residential vacancy to decline further to about 10.3% by 2021. This is partly due to a slower completion of new units during the period based on developer schedules. The stable take-up of units in the secondary market suggests that the market is driven by a strong end-user demand and not by mere speculative demand.

Comparative prime 3BR residential lease rates (PHP/sq m)

Location	Q3 2018 (PHP/sq m)	Q4 2018 (PHP/sq m)	% Change (QoQ)	Q4 2019F (PHP/sq m)	% Change (YoY)
Fort Bonifacio	620-1,012	624-1,020	0.7%	628-1,027	0.7%
Makati CBD	548-1,090	550-1,098	0.6%	554-1,106	0.7%
Rockwell Center	738-1,035	744-1,042	0.7%	748-1,047	0.5%

Source: Colliers International
Note: USD1 to PHP53 as of end-Q4. 1 sq m = 10.76 sq ft

Colliers notes that average lease rates across completed condominium units in the capital's major business districts continue to increase, albeit marginally.

RENTS AT FLATTISH GROWTH

Average rents in prime three-bedroom units in Makati CBD, Fort Bonifacio and Rockwell Center rose by 0.6% qoq, aligned with our projection in Q3 2018. Despite a flattish pace of increase, this is a reversal from the decline posted from Q1 2017 to Q1 2018. This indicates a sustained demand for condominium units for lease in the secondary residential market starting mid-2018.

We see rents in Makati CBD, Fort Bonifacio, and Rockwell Center rising by 0.8% in 2019 despite the delivery of a modest number of new units over the next 12 months.

PRICES STILL RISING

Capital values continue to increase with average prices of prime three-bedroom units in the secondary market ranging between PHP131,000 and PHP329,000 (USD2,472 and USD6,208) per sq metre as of Q4 2018, increasing between 5% to 6.5% qoq. Colliers is revising its forecast of condominium price increase from 2019 to 2021 upward to 5% yearly from the previous 3%.

Comparative luxury 3BR residential capital values (PHP / sq m)

Location	Q3 2018	Q4 2018	% Change (QOQ)	Q4 2019F	% Change (YOY)
Fort Bonifacio	124,000-264,000	131,000-280,000	6.0%	138,000-296,000	5.7%
Makati CBD	125,000-313,000	131,000-329,000	5.0%	139,000-349,000	6.1%
Rockwell Center	208,000-250,000	222,000-267,000	6.5%	232,000-279,000	4.6%

Source: Colliers International

SALES AT HISTORICAL HIGH, BUT 2019 TAKE-UP TO BE HINDERED BY SLOWER LAUNCHES

Metro Manila condominium sales in the pre-selling market remain strong despite higher inflation and the central bank's decision to raise benchmark yields in 2018. Latest sales figures show that 2018 pre-sales covering major business districts in Metro Manila and the fringes reached 54,000 units, surpassing the previous record-high of 53,000 units in 2017. Colliers recorded a strong take-up for affordable to mid-income units with prices ranging from PHP1.7 million (USD32,075) to PHP5.9 million (USD111,321).

Meanwhile, the country's inflation has decelerated starting in November 2018, from an annual rate of 5.2% in 2018 the central bank is now forecasting inflation of between 2% to 4% in 2019. With subdued inflation we do not see the central bank raising benchmark yields over the next 12 months and this should sustain demand in the affordable to mid-income residential segments over the next 12 to 36 months.

Colliers believes that pre-sales in 2019 will likely remain strong given the strong end-user demand. However, topping the 2018 sales figures might be a challenge given Colliers' projected slowdown in launches due to the dearth of available developable land in Metro Manila and the continued acceleration of land prices in the country's key business districts. We also see slower launches having a spill over effect on take-up figures in 2020 and 2021.

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