Colliers Quarterly

MANILA | RESIDENTIAL

Q1 2018
10 May 2018

Colliers INTERNATIONAL
Accelerating success.

Respite from the supply scare

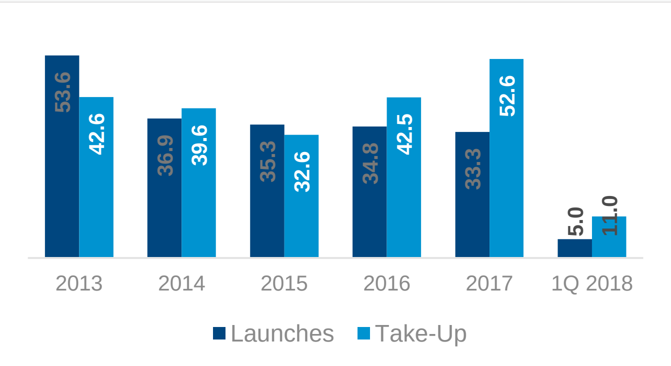
Dinbo Macaranas Senior Research Manager

Q1 2018 numbers seem to indicate another strong year for the residential market as total pre-sales take-up was over 11,00 units, slightly higher than the same period year. Strong demand continued to push prices upward, despite the large volume of supply. Given these characteristics, interested stakeholders have expressed concerns of a possible housing bubble.

Colliers thoroughly analysed supply projections resulting in a significant 53% downward revision in 2018 forecasts to 12,750 units, compared to the 27,200 units forecasted in Q4 2017. We believe this revision effectively allays concerns of a bubble burst. The forecast may be revised downwards again based on construction progress and developers supply strategies.

Vacancy was also seen declining, hinting that demand is real and not purely speculative. As such, we recommend that developers continue to launch projects while bearing in mind that Metro Manila is still a competitive market where buyers and tenants are closely considering location and overall living experience.

Metro Manila Residential Condominium Launches and Take-up (in '000 units)



Source: Colliers International Philippines

Forecast at a glance

Demand

Pre-sales remained strong with net take-up of 11,000 units in Q1 2018. We expect take-up to reach at least 40,000 in 2018 driven by investors and end-users. Through 2020 we expect demand to be approximately 40,000 units per year.

Supply

2018 forecast is adjusted downward to 12,800 units given construction delays and adjustments in timelines. For 2019 to 2021, we still expect 27,100 units to be completed.

Vacancy rate

Vacancy stands at 12.4%, slightly down QoQ. We expect resilient vacancy staying within the low double digit range in the next three years despite the upcoming supply as demand from Chinese nationals increases.

Rent

RENT

Rents have been declining but this should recover as more units in CBDs are delivered and demand from foreign and local employees grow. We expect a 1% - 3% annual increase in rents from 2019 to 2020.

Price

Prices in CBDs continue to rise between 2% to 4.5% QoQ. We expect this to continue in 2018 with infrastructure developments and high pre-sales levels. Through 2020 we expect capital values to rise 8% - 10% per year, congruent with the level of supply coming online.

Residential Supply Forecast (units)

LOCATION	END 2017	2018F	2019F	2020F	2021F	TOTAL
Alabang	3,900	650	-	-	-	4,500
Araneta Center	4,200	300	-	-	-	4,500
Eastwood City	8,500	-	-	600	-	9,300
Fort Bonifacio	27,500	6,700	5,200	3,000	-	40,900
Makati CBD	24,900	370	2,500	600	300	28,700
Manila Bay Area	16,600	3,900	6,600	2,600	2,200	29,500
Ortigas Center	17,500	480	800	600	600	20,100
Rockwell Center	4,200	350	760	800	-	5,800
Total	107,300	12,750	15,800	8,200	3,100	143,300

Source: Colliers International Philippines

Supply forecast drops

Total residential condominium stock in Metro Manila CBDs reached 107,300 units as of Q1 2018. Only two projects were completed in the quarter namely Shangrila Properties' Shangri-La at the Fort and Filinvest Land's Botanika Nature Residences Tower 1 totalling almost 200 units combined.

The breakdown of the stock is still largely skewed in favor of Fort Bonifacio accounting for 26% of total stock in CBDs or 27,500 units. Makati is close second with about 25,000 units or 23% of total stock. Meanwhile Ortigas follows with 17,500 units or 16%. Interestingly, Manila Bay Area is inching closer to Ortigas, already accounting for 15% of total stock or 16,600 units.

Interestingly, the over 27,000 units forecasted for the entire 2018 as of Q4 2017 is now down to 12,700 units considering construction delays and adjustments in timelines. Colliers believes this downward adjustment in forecast is positive, especially as fears of an oversupply situation continues to plague the market.

Resilient vacancy signifies real demand

Metro Manila vacancy was down slightly to 12.4% from Q4 2017's 12.6%. Notably, Makati, Ortigas, and Manila Bay Area showed a decline in vacancy quarter on quarter. Manila Bay Area showed the biggest decline to 15.0% from a high of 19.1%. We attribute this to the strong demand from the growing Chinese community which concentrated in Manila Bay Area and portions of Makati CBD. Among major CBDs, only Fort Bonifacio showed an increase in vacancy, understandably because of the sizeable new supply that was completed throughout 2017.

Throughout 2018, we expect vacancy to hover between 12% to 15% given the strong demand, offset by the still over 12,000 units to be completed for the remainder of the year. While 12,700 units reflects a downward adjustment in supply, we recognize that this is still a significant level of new supply as it would still be higher than the record 10,400 units delivered last year.

Manila Bay Area and Fort Bonifacio would be of interest as supply for the year will come from these two major submarkets, representing 31% and 52% respectively, of upcoming supply for the remainder of 2018. The shifting trend in vacancy in these locations would be indicative of real demand. The decline in Manila Bay Area vacancy supports the reported strong demand from Chinese nationals who are working for offshore gambling companies. Fort Bonifacio, meanwhile, still primarily caters to employees of KPOs and MNCs within its vicinity.

We project that overall vacancy in the next two to three years will hover between 12% to 16% given the still 27,100 units to be completed through to 2021. As noted in prior reports, the upward pressure on vacancy will be tempered by increased demand from young professionals, expatriates, and Chinese nationals-workers.

Comparative Residential Vacancy Rates

LOCATION	Q4 2017	Q1 2018	Q2 2018F
Makati CBD	13.6%	12.3%	12.5%
Fort Bonifacio	15.7%	17.3%	17.5%
Rockwell Center	11.1%	11.4%	11.2%
Ortigas Center	6.4%	6.2%	6.1%
Eastwood City	6.1%	5.9%	6.1%
Manila Bay Area	19.0%	14.7%	13.5%

Source: Colliers International Philippines

Comparative Luxury 3BR Residential Rental Rates (PHP / sq m / month)

LOCATION	Q4 2017	Q1 2018	%CHANGE (QoQ)	Q4 2018F	%CHANGE (YoY)
Fort Bonifacio	620 - 1,000	620 - 1,000	-0.3%	610 - 1,000	-1.2%
Makati CBD	530 - 1,070	530 - 1,080	0.2%	530 - 1,060	-0.1%
Rockwell Center	730 - 1,020	730 - 1,020	-0.1%	720 - 1,010	-1.0%

Source: Colliers International Philippines Research

Prices continue to rise

While vacancies were declining, average rents were largely flat in most CBDs. For Makati CBD, Rockwell and Fort Bonifacio, average rents in prime three-bedroom units stayed within PHP800 to PHP900 per sq m per month on average (1.43USD to 1.61USD per sq ft per month). Changes from Q4 2017 were within one percentage point. Prime condominium units in Rockwell Center still commands the highest rental rate averaging P872 per sqm per month (1.56USD per sq ft per month). It is followed by Fort Bonifacio at P810 per sqm per month (1.45USD per sq ft per month) and Makati CBD at P805 per sqm per month (1.44USD per sq ft per month). Capital values on the other hand, continue to increase with average prices of prime three-bedroom units in the secondary market are all above PHP200,000 per sq m.

The continuous rise in capital values is not surprising as primary market prices are also hitting record levels. The most expensive condominium in Metro Manila is now priced close to PHP400,000 per sq m. The PHP400,000 per sq m-mark is expected to be breached with upcoming high profile projects designed by prominent architects. On average, actively selling condominiums in CBDs launched six years ago were priced at PHP113,100 per sq m. Today, actively selling projects in major CBDs average PHP161,700 per sq m. The five-year compounded annual growth rate across CBDs range between 5% to as high as 14%, with Makati showing the fastest growth rate.

The noted price increases across the Metro Manila market was not surprising as pre-selling numbers continue to show positive results. Take-up in Q1 2018 reached over 11,000 units, slightly higher than the 10,900 units recorded in the same period last year. Recall that the pre-selling market rebounded in the last two years with net take-up in Metro Manila reaching a new annual historical high of 52,600 units in 2017.

Looming bubble burst?

Given the strong demand, significantly increasing prices, and record high supply, real estate stakeholders have expressed concerns of a possible housing bubble burst. Colliers believes however that a closer look at the recent trends in the market would reveal otherwise.

Typically, housing bubbles are characterised by the following: (1) Dramatic rise in prices, driven by strong demand, speculation and exuberance; (2) The strong demand exceeds the pace of supply completion; (3) Developers attempt to chase the demand and start to build more units; (4) Speculators enter the market further driving demand for more houses (in this case, condominium units); (5) At a certain point however, demand slows down while supply continues to increase; (6) This results in a drastic drop in prices, leading to a bubble burst.

While various stakeholders may debate on the intention of buyers – whether for end use, investment, or even outright arbitrage through resale, it must be noted that at least two unique trends in the Metro Manila market would assuage fears of a bubble burst. Firstly, the downward adjustment in 2018 supply from 27,000 units to 12,700 units effectively softens fears of an oversupply. And even at 12,700 units, we expect more delays toward the latter part of the year. Secondly, vacancy improvement in the secondary market within the key submarkets of Makati CBD and Manila Bay Area proves the existence of real demand rather than pure speculation.

We also note that sales to Chinese nationals have risen in 2017 and continued through this year. We attribute this to the influx of Philippine Online Gaming Operators (POGO) which sustained the office market and consequently impacted residential sales as POGOs often supply housing for their staff. Many of the major developers have reported increased international sales and cases where buyers are buying multiple floors or in bulk.

Comparative Luxury 3BR Residential Capital Values (PHP / sq m)

LOCATION	Q4 2017	Q1 2018	%CHANGE (QoQ)	Q4 2018F	%CHANGE (YoY)
Fort Bonifacio	112,000 - 239,400	114,000 - 244,400	2.1%	123,700 - 264,400	8.2%
Makati CBD	111,700 - 286,400	111,700 - 286,400	3.0%	131,200 - 336,400	14.0%
Rockwell Center	198,000 - 244,300	200,400 - 247,300	1.2%	220,500 - 270,000	13.0%

Source: Colliers International Philippines

Still a competitive market

Overall, while it appears that a housing bubble burst has not yet occurred at this point, it must be stressed that it is still a very competitive condominium market. The key for developers is to ensure that their projects are meeting the expectations of buyers and tenants, especially amidst still sizeable new upcoming supply. We believe Manila Bay Area and Makati CBD have the advantage in terms of location with increased demand from companies acquiring residential units for their employees in these submarkets, augmented by the presence of Chinese nationals. Other locations meanwhile, must highlight the overall living experience in their project premises to remain as viable options. Retail options nearby, accessibility, and availability of amenities are some of the major considerations of buyers and tenants today.

Average Actively Selling Prices in CBDs

Submarket	Q1 2013	Q1 2018	CAGR
Fort Bonifacio	112,800	171,600	9%
Makati CBD	123,000	235,600	14%
Ortigas Center	99,600	128,400	5%
Manila Bay Area	111,300	162,300	8%
OVERALL	113,100	161,700	7%

Souce: Colliers International Philippines; based on projects launched 12 months prior

For more information:

Dinbo Macaranas
Senior Research Manager
+632 858 9047
randwil.macaranas@colliers.com

Joey Roi Bondoc
Research Manager
+632 858 9057
joey.bondoc@colliers.com

Contributors:

David A. Young
Chief Operating Officer

Richard Raymundo
Managing Director

Kasi Yute
Research Analyst