With continued demand from foreign and local employees, we upgraded our 2019 rental growth forecast from 1.5% to 5.8%. However, we see a slower pace of growth in 2020 due to substantial new supply.

By the end of 2021, we see Metro Manila’s stock breaching 152,000 units. Fort Bonifacio and the Bay Area should dominate, covering more than 80% of new supply.

Colliers sees sustained residential demand from investors and local employees with the Bay Area, Quezon City, Ortigas Center and its fringe area dominating take-up across the country’s capital.

The worsening traffic in Metro Manila is raising the demand for co-living facilities near central business districts (CBD). This has been compelling developers to partner with existing operators of co-living projects or implement creative leasing models, especially those with a significant number of ready for occupancy (RFO) units.

With a constantly evolving demand, Colliers recommends that developers -

> Tie-up with shared living developers and operators with projects near business districts and further differentiate by offering childcare facilities, among others, given the proliferation of these projects.

> Explore peripheral areas such as Quezon City South and Manila North as areas for future condominium projects.

Colliers sees stable take-up in Rockwell Centre, Makati CBD, Bay Area and Fort Bonifacio and this should ensure a steady rise in Metro Manila capital values over the next 12 to 36 months.

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> Explore peripheral areas such as Quezon City South and Manila North as areas for future condominium projects.
Colliers encourages developers to constantly look for fringe areas ripe for construction of new units due to availability of land or redevelopable facilities, including those previously used for industrial purposes. Given these prerequisites, Colliers recommends developers to further explore the viability of Quezon City north and south; Ortigas fringe; and Manila.

Fort Bonifacio, Bay Area cover 80% of new supply

In Q3 2019, Colliers recorded the completion of 1,900 units, bringing the total completions for the first nine months of 2019 to 8,200 units. Fort Bonifacio dominated other submarkets in terms of completions during the period, covering 61%, followed by Ortigas Center’s 22% and the Bay Area’s 17%.

We now project condominium stock to reach 128,500 units by the end of 2019, higher than our earlier forecast of 128,050 units as three projects in the Bay Area and Fort Bonifacio were turned over ahead of schedule.

Metro Manila’s condominium stock should expand to 152,000 units by the end of 2021, a 28% rise from about 118,900 in 2018. Colliers sees Fort Bonifacio and the Bay Area covering more than 80% of new supply from 2019 to 2021. In our opinion, the pace of residential completion continues to move in step with the expansion of business activities in these business districts.

RECOMMENDATIONS

Aggressive development of co-living...

The construction and rehabilitation of railway and expressways across Metro Manila has resulted in unbearable traffic jams across the capital’s major roads. This has compelled developers to build co-living projects near key business districts which primarily cater to young professionals who want to live near their places of work but cannot afford to buy or lease out condominium units within the major CBDs. Colliers believes that these types of housing are likely to remain popular among employees of both outsourcing and non-outsourcing companies. In our opinion, this is also an opportunity for major developers to expand their presence in the co-living segment especially if they intend to build similar projects outside Metro Manila.

This indicates that there is a steady stream of demand from local employees either living in shared units (similar to Ayala Land’s The Flats and SM’s MyTown) or pooling funds to lease out studio or one-bedroom units near CBDs.

Colliers believes that developers should continuously tap the pent up demand for co-living units. Colliers sees a more pronounced development of these projects and developers should start incorporating differentiating features such as childcare facilities and private lounges to be used for Skype, for example.

...and student-centric facilities

College students in Metro Manila are not spared from the worsening traffic. Aside from the mom-and-pop dormitories, the need for condominium projects near universities has also been rising. We encourage developers to continue tapping this market and further explore developable areas near university areas in Manila, Pasay, and Quezon City. Moreover, these projects should feature typical commercial tenants, fitness centers, and student lounges with strong WiFi connections.

Explore fringe areas for new residential projects

The lack of developable land in major CBDs such as Makati, Fort Bonifacio, and Ortigas Center has resulted in slower launch of residential projects in Metro Manila.

Co-living stock and forecast, end-Q3 2019 and 2021 (no. of beds)

Source: Colliers International
LEASING HOLDS FIRM

The secondary market, which covers completed units in key business hubs across Metro Manila, will likely be sustained by a mix of demand from foreign and local investors and professionals.

The completion of additional units across Metro Manila resulted in a slightly higher overall vacancy in the Metro Manila secondary residential market of 10.8% in Q3 2019 from 10.6% in Q2 2019. We see a marginal increase in the secondary residential market’s vacancy (10.9%) in 2019 as we project sustained absorption of completed condominium units particularly in business hubs (such as Quezon City and Ortigas CBD) that started accommodated offshore gaming operators over the last three quarters.

The demand for residential units in the Bay Area has been driven mainly by Chinese offshore gaming firms as it has become a hotbed for offshore gaming operations in Metro Manila. From 2017 to H1 2019, we estimate 67% of office space transactions in the Bay Area covered offshore gaming operators.

Meanwhile, Fort Bonifacio remains a key business and knowledge process outsourcing hub, housing some of the largest outsourcing occupants in Metro Manila such as Google, Facebook, Tenet Health, and JPMorgan. The influx of these firms, complemented by the presence of finance and equity firms has propelled demand from foreign and local employees.

Leasing demand in Makati CBD should continue to be propelled by local and foreign workers. From 2017 to H1 2019, traditional* and outsourcing firms accounted for more than 80% of office space deals in the business hub.

Colliers sees a slight rise in vacancy in the secondary market in 2020 as we project the completion of about 15,600 units. This is 73% higher than the annual average of 9,000 units delivered from 2010 to 2018.

SLIGHT UPTICK IN RENTS

Average rents in prime three-bedroom units in Rockwell, Makati CBD and Fort Bonifacio rose by 3.6% QOQ. For Metro Manila, we expect rents to increase by 6.8% annually from 2019 to 2021. We still see sustained rental growth, especially in key CBDs and their fringes that have recently housed offshore gaming operators from China. This should be complemented by demand from local employees constantly looking for units to lease out amid the worsening traffic in Metro Manila.

PRICES CONTINUE TO INCREASE

Capital values continue to increase with average prices of prime three-bedroom units in the secondary markets of Rockwell, Makati CBD, and Fort Bonifacio ranging between PHP191,000 and PHP339,000 (USD3,700 and USD6,500) per sq metre as of the end of Q3 2019, increasing by an average of 6.2% QOQ. For Metro Manila, Colliers projects prices increasing by an annual average of 13.6% from 2019 to 2021, faster than our initial forecast of 5.2% as we see faster take-up of completed units especially in Makati CBD and Rockwell where there will likely be limited completions through 2021.

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Source: Colliers International. *Consists of companies in various sectors including legal, engineering and construction, government agencies and flexible workspace operators.