



Joey Roi Bondoc

Senior Manager | Research | Philippines

+63 2 8858 9057

[Joey.Bondoc@colliers.com](mailto:Joey.Bondoc@colliers.com)

# A SAFE BET AMID THE PANDEMIC

Demand for logistics and manufactured essentials to keep industrial sector afloat despite pandemic, tax issues

## Insights & Recommendations

Colliers believes that manufacturers of essential items such as food, medical, and other household products are likely to lead industrial space take up in 2020 and 2021. This should offset a subdued absorption from electronics manufacturers due to the economic slowdown.

Official data show that in the next 12 to 24 months, we are likely to see more investments funneled into the transportation and storage sector.

Colliers recommends developers modernize warehouses to capture the growing demand for e-commerce; tie up with delivery firms in Metro Manila to reach more consumers; and monitor government incentives for manufacturers of essential goods.

	H1 2020	Full Year 2020	2020-24 Annual Average
 <b>Demand</b> <ul style="list-style-type: none"> <li>Manufacturers of essential items such as food and beverage are likely to expand and this should offset a muted absorption from electronics and semiconductor firms seeing slower demand due to global crisis.</li> </ul>	 <b>15 ha</b>	 <b>25 ha</b>	 <b>43 ha</b>
 <b>Supply</b> <ul style="list-style-type: none"> <li>Despite the pandemic, we still expect new industrial supply in the CALABA<sup>1</sup> region as developers capture demand from existing locators as well as new investors recently approved by investment agencies.</li> </ul>	 <b>22 ha</b>	 <b>42 ha</b>	 <b>46 ha</b>
	<b>HOH / End H1</b>	<b>YOY / End 2020</b>	<b>Annual Average Growth 2020-24 / End 2024</b>
 <b>Rent</b> <ul style="list-style-type: none"> <li>With major locators including electronics firms holding off expansion we do not see an increase in warehouse and land lease rates in 2020. In 2021, warehouse rates are likely to grow at a faster pace than land leases.</li> </ul>	 <b>0%</b> <b>PHP82</b>	 <b>0%</b> <b>PHP82</b>	 <b>3.3%</b> <b>PHP96</b>
 <b>Vacancy</b> <ul style="list-style-type: none"> <li>We see a marginal rise due to new supply. But a more active absorption in 2021 and 2022 from manufacturing and logistics investments supported by a global and domestic consumption recovery should raise take up.</li> </ul>	 <b>+0.2pp</b> <b>5.5%</b>	 <b>+0.2pp</b> <b>5.7%</b>	 <b>0.0pp</b> <b>5.5%</b>

Source: Colliers International. Note: USD1 to PHP50 as of the end of Q2 2020. 1 sq m = 10.76 sq ft; pp = percentage point. Data in the table above represents land leasehold rates. <sup>1</sup>CALABA – Cavite, Laguna, and Batangas.

## RECOMMENDATIONS

### Monitor new investments approved by the government

In our view, industrial park developers should thoroughly assess the industrial space and warehouse requirements of local and foreign investments being approved by the government's Investment Promotion Agencies (IPA) such as the Philippine Economic Zone Authority (PEZA), Clark Development Corporation (CDC), Subic Bay Metropolitan Authority (SBMA), and Board of Investments (BOI). Over the past two to three years, Colliers has observed that manufacturers of light items such as food and beverage continue to locate in industrial parks in Northern Luzon while higher-value projects including semiconductors and electronics gravitate towards the CALABA industrial zones.

### Modernize warehouses

Despite the pandemic, Colliers projects demand for industrial warehouses to rise over the next 12 to 36 months due to the growing demand for e-commerce and deliveries. Based on data from Philippine Statistics Authority (PSA) Colliers sees more investments into the transportation and storage segment from 2020 to 2022. In our opinion, increased investments in modern warehouses are likely to benefit industrial parks in the CALABA and Pampanga-Bataan corridors especially those that house manufacturers of essential items including food and medical devices and supplies. In our opinion, more modern warehouses are likely to be needed as manufacturing investments pledged in the past six to 12 months translate into space requirements.

### Incentives for manufacturers of essential items

Colliers encourages manufacturers of essential needs to look at the long-term government plans. Earlier, the Department of Trade and Industry announced it will likely focus on domestic manufacturing of essential items such as food and healthcare supplies. The agency is also luring more manufacturers of electronics with higher design components and features. In our opinion, locators in industrial parks should look at the incentives that the government may provide and factor these into their expansion plans amid the pandemic.

## MANUFACTURING, LOGISTICS TOP FOREIGN INVESTMENTS

The latest data from the Philippine Statistics Authority (PSA) show that foreign investments registered with the Philippines' investment promotion agencies for the first three months of 2020 dropped by 36% to PHP29.4 billion (USD588 million) from PHP46 billion (USD920 million) in the same period in 2019. We attribute this to a weak global demand that started with the United States-China trade war and has since been exacerbated by the pandemic.

But a positive for the industrial sector is that bulk of committed foreign investments during the period were funneled into sectors that support the CALABA industrial zone. These include transportation and storage which received PHP10.9 billion (USD218 million) or 37% of the total committed investments followed by manufacturing which garnered PHP10 billion (USD200 million) in committed investments or 34% of total. Both transportation and storage and manufacturing investments accounted for 71% of all pledged foreign investments during Q1 2020.

Interestingly, commitments from the UK and USA were mainly funneled into transportation and storage projects while investments from China were mostly intended to finance manufacturing projects. Once these foreign investment commitments materialize, we see them occupying space within industrial parks in the Cavite-Laguna-Batangas corridor. According to the PSA, majority of the transportation and storage investments are in Metro Manila which are likely to support new manufacturing investments in CALABA.

In our opinion, this indicates that the CALABA area remains a preferred industrial location in the country despite the pandemic and lockdown. Aside from being a major source of manufactured essential items such as food and beverage and medical supplies, several warehouses in the region also serve the storage requirements of various online shopping platforms which complemented the surge in e-commerce during the pandemic.

## VACANCY UP DUE TO NEW SPACE

In H1 2020, industrial vacancy in the Cavite-Laguna-Batangas corridor marginally increased to 5.5% from 5.3% in H2 2019. We attribute this to additional industrial space in Laguna and Cavite. Cathay Land opened the fourth tranche of its Cavite Light Industrial Park (CLIP) Phase Two project in Silang, Cavite. The new tranche features 15 lots that are available for light industry locators<sup>2</sup>.

The lockdown has compelled some locators in CALABA industrial parks to rethink their expansion strategies. Some firms, for instance, had to implement limited operations as employees were unable to report to work due to limited public transportation. Some companies, due to a weak global demand for electronics and appliances, had to hold off expansion.

Despite this, Colliers does not see a substantial increase in vacancy up to 2022 as most locators in CALABA industrial parks are likely to stay in the country while foreign investment pledges in the past six to 12 months should take-up any new industrial space. However, issues such as a lack of public transportation for workers due to the lockdown, slumping global demand, and uncertainty in the approval of proposed tax reforms are likely to hinder some locators' initial plan to expand operations.

Even with the new supply, we project industrial vacancy to rise only marginally to 5.7% by the end of 2020. The delivery of additional space in Lima Technology Center, Cavite Technopark Phase two, and Suntrust Ecotown Tanza Phase Two will also likely lead to a marginal increase in vacancy in 2021.

Some of the businesses that earlier expressed intention to locate or expand in the area include distributors of processed food, manufacturers of ready-to-drink products, and a storage facility for a chain of restaurants.

We expect a decline in vacancy starting 2022 as new manufacturing activities in the region contribute to an increase in industrial space absorption. Secretary of Trade and Industry Ramon Lopez noted that the agency is pursuing 24 foreign business leads and targeting 135 more firms to consider the Philippines as a complementary host country<sup>3</sup>. Other details have yet to be released by the agency.

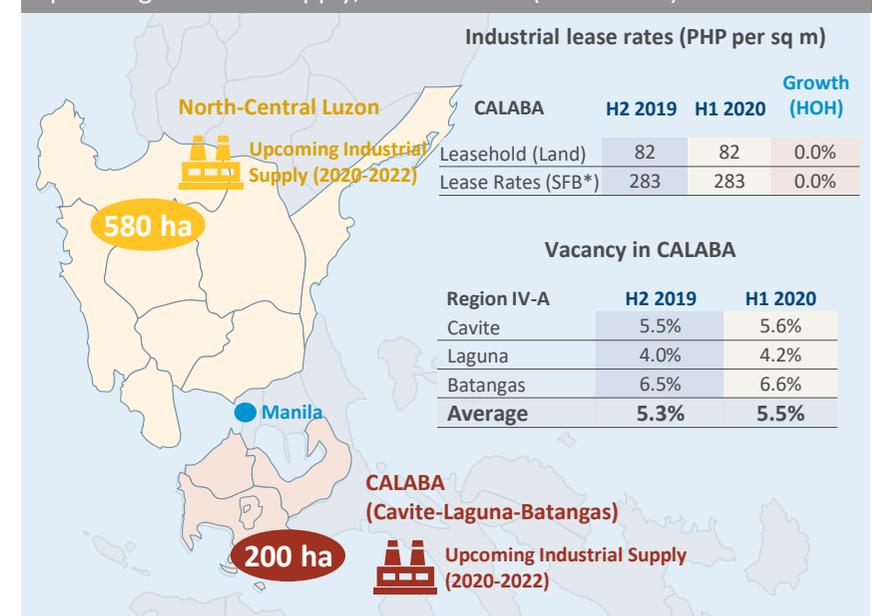
These investments, once they materialize, along with the containment of the pandemic and resolution of corporate tax issues should help boost the recovery of the sector.

## RENTS TO RECOVER IN 2021

While we are likely to see expansion from essential segments such as manufacturers of food and other household essentials, this is likely to be offset by a rationalization of operations from manufacturers of semiconductors and electronics due to a weakening global demand. Hence, we expect both land leasehold and lease rates for warehouses to be stable for the remainder of 2020. Colliers projects a rebound starting 2021 as previously committed investments materialize and absorb space and global and domestic demand recover.

As we expect e-commerce and deliveries to continue to thrive, Colliers sees warehouse lease rates growing by a faster 4.8% annually from 2021 to 2022 compared to the 4.6% per annum growth we project for land leasehold.

### Upcoming industrial supply, 2020 to 2022 (in hectares)



Source: Colliers International. \*Standard Factory Building.

Source: Colliers International. <sup>2</sup>Manila Standard, (2020). *Cathay Land Backs "Balik Probinsya"*. <sup>3</sup>Manila Bulletin, (2020). *DTI Pursues 159 Investment Leads, Sees Rebound*.

## Primary Author:

### Joey Roi Bondoc

Manager | Research | Philippines  
+63 2 8858 9057

[Joey.Bondoc@colliers.com](mailto:Joey.Bondoc@colliers.com)

## Contributors:

### Donica Cuenca

Research Analyst | Research | Philippines  
+63 2 8858 9068

[Donica.Cuenca@colliers.com](mailto:Donica.Cuenca@colliers.com)

### Martin Aguila

Research Analyst | Research | Philippines  
+63 2 8863 4116

[Martin.Aguila@colliers.com](mailto:Martin.Aguila@colliers.com)

## For further information, please contact:

### David A. Young

Chief Operating Officer | Philippines  
+63 2 8858 9009

[David.A.Young@colliers.com](mailto:David.A.Young@colliers.com)

### Richard Raymundo

Managing Director | Philippines  
+63 2 8858 9028

[Richard.Raymundo@colliers.com](mailto:Richard.Raymundo@colliers.com)

---

### About Colliers International

Colliers International (NASDAQ, TSX: CIGI) is a leading real estate professional services and investment management company. With operations in 68 countries, our more than 15,000 enterprising professionals work collaboratively to provide expert advice and services to maximize the value of property for real estate occupiers, owners and investors. For more than 25 years, our experienced leadership, owning approximately 40% of our equity, has delivered compound annual investment returns of almost 20% for shareholders. In 2019, corporate revenues were more than \$3.0 billion (\$3.5 billion including affiliates), with \$33 billion of assets under management in our investment management segment. Learn more about how we accelerate success at [corporate.colliers.com](http://corporate.colliers.com), [Twitter](#) or [LinkedIn](#)

### Copyright © 2020 Colliers International

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

