TEMPORARY SETBACK PROVIDES LEEWAY FOR DEVELOPERS AND INVESTORS

Condominium developers and buyers to cash in on opportunities post-pandemic and lockdown

Joey Roi Bondoc
Senior Manager | Research | Philippines
+63 2 8858 9057
Joey.Bondoc@colliers.com

Insights & Recommendations

The condominium market is starting to feel the adverse impact of the pandemic and lockdown. We see a drop in condominium completions and an appetite for both existing and pre-selling units.

Colliers believes that the full impact of the pandemic may be more apparent in H2 2020. The government-projected economic recovery in 2021 is likely to help boost residential leasing and sales in Metro Manila.

Colliers recommends developers take advantage of the pick-up in demand by highlighting units located in integrated communities, implementing adequate property management, offering flexible payment terms to recapture demand, and monitoring OFW[1] markets that drive take up for affordable to mid-income[2] units.

		Q2 2020	Full Year 2020	2020–22 Annual Average
Demand	> We saw lackluster demand due mainly to slow POGO[3] leasing and subdued take up from other key groups including OFWs and local investors. Colliers expects demand to pick up in Q1 2021 alongside economic recovery.	▼ -665	▼ 640 units	▲ 6,170 units
Supply	> Manpower shortage and social distancing measures in construction sites continue to hold back completions. The rising number of unsold condominium inventory is also compelling developers to delay delivery.	▼ 0 units	▼ 6,270 units	▲ 7,160 units

		QOQ / End Q2	YOY / End 2020	Annual Average Growth 2019–22 / End 2022
Rent	> We project a rental correction in 2020 but this should be tempered by a slower completion of new projects. Rents should start recovering in 2021 as leasing appetite in business districts improves.	-2.1% ▼ PHP770	-4.5% ▼ PHP737	2.3% ▲ PHP770
Vacancy	> We expect vacancy to rise to 14.6% in 2020 from 11% in 2019 mainly due to slower take-up of units in core business districts. Vacancy should start falling in 2021 as demand from investors and end-users picks up.	+0.5pp ▲ 11.8%	+3.6pp ▲ 14.6%	-1.6 pp ▼ 11.4%
Capital Values	> Colliers expects a correction in residential prices in 2020 due to subtle demand. We see a slow recovery in 2021, which should follow the U-shaped economic recovery path forecasted by economists[4].	-6.1% ▼ PHP230,900	-13.8% ▼ PHP200,000	2.1% ▲ PHP208,600

Source: Colliers International. Note: USD1 to PHP50 as of the end of Q2 2020. Demand represents net take-up in the secondary market (in units). Rent and capital values are per sq metre. [1]Overseas Filipino Worker. [2]Affordable and mid-income projects are priced between PHP1.7 million to PHP5.9 million. [3]POGO = Philippine Offshore Gaming Operators. [4]Philippine Daily Inquirer. (2020). Weak PH Demand Helps Cap June Inflation Uptick to 2.5%

RECOMMENDATIONS

Highlight integrated features

Colliers recommends that developers highlight projects that are within integrated communities. In our opinion, the pandemic has further emphasized the need to be in an integrated community where unit owners can easily access essential goods and services. We encourage developers to highlight the integrated features of their residential projects as this is likely to be among the major considerations of unit owners post-lockdown and COVID-19 pandemic. Developers should continue to highlight the sanitation and property management procedures implemented within their projects.

Offer flexible payment packages and terms to attract buyers

In our opinion, developers should continue to offer flexible payment terms and attractive packages to potential condominium buyers in Metro Manila. We encourage investors to always be on the lookout for projects with discounted rates, both in the pre-sale and secondary markets. Additionally, potential investors should look at areas where there is a greater concentration of unsold inventory, as developers are likely to offer more attractive packages for projects located in these areas.

Highlight projects outside Metro Manila

In our view, Metro Manila condominium developers should also highlight both their vertical or horizontal residential projects outside of the capital region. Colliers has observed steady demand for house-and-lot and lot-only projects in key areas outside of Metro Manila including Pampanga[5], Cavite[6], Laguna[7], and Batangas[8] despite the pandemic.

Constant dialogue with the national government

Colliers encourages residential developers to constantly coordinate with the government for any concession that is likely to be extended, including extension of completion schedules and faster approval of licenses to sell.

Developers to monitor key markets

Colliers has observed that anecdotally, remittances from Overseas Filipino Workers (OFWs) drive the demand for affordable to mid-income (PHP1.7 million to PHP5.99 million or USD34,000 to USD119,800) condominium units. Developers remain proactive in offering units to families receiving remittances from their relatives working abroad.

In our opinion, developers should closely monitor COVID-19 developments in countries that are sources of remittances. The United States, Singapore, and Saudi Arabia, for instance, historically account for about 50% of annual OFW remittances and OFWs in these countries are among the drivers of condominium demand within and outside Metro Manila.

NEW SUPPLY TO PICK UP IN 2021

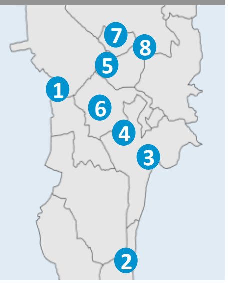
For Q2 2020, we initially projected the completion of three projects with more than 1,100 units located in the Bay Area, Fort Bonifacio, and Alabang. Due to construction delays, the completion of these projects has been pushed back to Q4 2020.

In 2020, Colliers projects further slowdown in completions due to labor constraints and strict physical distancing measures implemented at construction sites. From our initial forecast of 10,940 units, we now project the delivery of 6,270 units. Six residential projects located in the Bay Area and Fort Bonifacio that were originally scheduled to be completed by Q4 2020 are now due to be delivered in 2021.

By the end of 2022, we expect the capital region's total stock to reach 151,570 units, down by 3% from our initial projection of 155,730 units. Selected projects due within the latter part of 2022 have been pushed back to 2023 or 2024 as developers adjusted their construction schedules. Selected developers are also awaiting the approval of their applications with the Department of Human Settlements and Urban Development (DHUD) to adjust their respective completion schedules. The DHUD has been accommodating the requests of private developers for extensions considering the pandemic-related construction delays and strict lockdown in Metro Manila.

Metro Manila residential stock forecast, end-2019 and 2022 (units)

Location	End of 2019	End of 2022	% change
1 Bay Area	22,430	36,840	64.2%
2 Alabang	4,430	5,380	21.4%
3 Fort Bonifacio	37,290	41,180	10.4%
4 Rockwell Center	5,270	5,830	10.6%
5 Ortigas Center	18,730	19,190	2.5%
6 Makati CBD	28,220	28,970	2.7%
7 Araneta Center	4,550	4,550	0.0%
8 Eastwood City	9,170	9,630	5.0%
Total	130,090	151,570	16.5%



Source: Colliers International

Note: Approximate distance from Metro Manila [5]Pampanga=81km [6]Cavite=51km [7]Laguna=103km [8]Batangas=108km

VACANCY TO RISE IN 2020

Colliers recorded secondary residential vacancy of 11.8% in Q2 2020, making it the fifth consecutive quarter of rising vacancy. The figure is slightly higher than the 11.3% posted in Q1 2020. The secondary market covers Ready-For-Occupancy (RFO) units in key business districts across Metro Manila. Colliers believes that the secondary market vacancy has yet to take into consideration the greater impact of the pandemic and lockdown on residential leasing across the capital region. The strict social distancing measures implemented in condominium projects has affected leasing in major business districts, with some unit owners delaying inspections. In our view, weak office leasing in Metro Manila is also likely to have more adverse impact on residential leasing. Hence, we believe that vacancy rates could reach the mid-teens by end-2020, which should be indicative of the pandemic and lockdown's deeper impact on the Metro Manila residential market.

In our opinion, the impact of the COVID-19 pandemic on the secondary residential market was not yet apparent in Q2 2020. However, the latest economic indicators point to a more precarious condominium market for the remainder of 2020.

The country's economy contracted by 0.2% in Q1 2020. With businesses adversely affected by lockdowns starting mid-March, economic analysts are projecting deeper contraction in Q2 to Q3 2020. The central bank, however, is projecting recovery starting Q4 2020. The last time the Philippine economy contracted, in 1998, average Metro Manila condominium prices declined by 14%. The GFC[8] resulted in a 4% drop in lease rates in 2009, from a previous 6% growth in 2008.

OFW remittances, one of the key drivers of residential demand, reached a 19-year low by the end of April 2020. Cash remittances reached USD2.05 billion[9] (PHP102.3 billion) in April, down 16.2% annually. This represents the steepest decline in remittances since the 33.5% drop recorded in January 2001 according to data from the Bangko Sentral ng Pilipinas (BSP) or central bank.

The slower offshore gaming and outsourcing office absorption for 2020 is also likely to have a spillover impact on residential leasing and sales in major business districts in Metro Manila, especially in the Bay Area, where we forecast 74% of new units due to be completed in H2 2020 are located.

PRICE CORRECTION IN THE OFFING

Overall, dampened demand in the market is resulting in a rising number of unsold condominium units in Metro Manila. Colliers estimates that as of Q1 2020, there are about 44,800 unsold condominiums in the primary market. With the rising number of unsold units in the capital region, Colliers expects developers to be more aggressive in offering bigger discounts (10% to 15% of the total contract price) and to offer more flexible payment terms for pre-selling projects. In our opinion, the increase in unsold inventory is one of the factors likely to contribute to the softening of average condominium prices in Metro Manila in 2020. Colliers is projecting average prices to soften by 13.8% in 2020. This is slightly lower than our initial estimate of a 15% correction due in part to the delayed completion of about 5,000 units in 2020. The delivery of these units has been moved to 2021.

An economic recovery in 2021 should boost demand. Hence, we see prices growing by a slightly faster 2.1% per annum from 2021 and 2022 from our initial estimate of 1.9% growth during the period.

RENTS TO RECOVER IN 2021

Due to the economic contraction forecasted by the National Economic and Development Authority (NEDA) and the Philippine central bank in 2020, we see rents in major business districts dropping by 4.5%. Our projected correction has been slightly tempered by the 43% reduction in new supply for 2020. In Q1 2020, we initially forecasted a 5.5% rental correction.

Meanwhile, the government-forecasted economic rebound should have a spillover impact on condominium leasing in the capital region. The central bank-estimated 7.8% economic growth complemented by a revival of traditional and outsourcing business activities in Metro Manila should help prop up leasing by foreign and local employees and should result in a 2.3% increase in lease rates starting 2021.

Note: [9]Global Financial Crisis. [10]The Philippine Star, Coronavirus sinks Philippines' remittance lifeline to 19-year low, 2020.

Primary Author:

Joey Roi Bondoc
Senior Manager | Research | Philippines
+63 2 8858 9057
Joey.Bondoc@colliers.com

Contributors:

Donica Cuenca
Research Analyst | Research | Philippines
+63 2 8858 9068
Donica.Cuenca@colliers.com

Martin Aguila
Research Analyst | Research | Philippines
+63 2 8863 4116
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

Richard Raymundo
Managing Director | Philippines
+63 2 8858 9028
Richard.Raymundo@colliers.com