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# OPPORTUNITIES FOR DEVELOPERS AND BUYERS

Softer residential demand in 2020 but economic and office leasing expansion to aid recovery in 2021


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## *Insights & Recommendations*

Colliers expects residential demand in Metro Manila to soften in 2020 due to the impact of the COVID-19 pandemic. If the virus is contained in H1 2020, we see market sentiment improving from Q3 2020 and a recovery in both demand and supply in 2021.

To take advantage of the recovery, Colliers encourages developers to highlight high-quality property management with a focus on sanitation and emergency preparedness, implement creative lease terms for Ready-for-Occupancy (RFO) units, and offer flexible payment terms to attract buyers, especially as pent-up demand starts to be released in 2021.

Meanwhile, we encourage buyers to take advantage of more attractive pricing in the market, especially for mid-income[1] condominium units.

| | | Q1 2020 | Full Year 2020 | 2020–22 Annual Average |
|---|---|---|---|---|
| Demand | > Colliers sees a softening of demand particularly in business districts dependent on POGOs[2]. We see a rebound in 2021 especially if the virus is contained and market sentiment improves before the end of 2020. | 1,100 units | 4,500 units | 7,200 units |
| Supply | > We project a slower completion in 2020 due to work stoppage following the implementation of ECQ[3] in Luzon. Colliers sees the delivery of new units rebounding in 2021 as new supply is likely to move in step with the pickup in demand. | 1,670 units | 10,940 units | 8,550 units |

| | | QOQ / End Q1 | YOY / End 2020 | Annual Average Growth 2019–22 / End 2022 |
|---|---|---|---|---|
| Rent | > Colliers sees rent for prime 3BR units in major business districts declining due to softer demand in the secondary market, and QOQ rental growth was 0.8 pps lower. We see rents recovering in 2022 as the market improves. | 2.0% PHP786 | -5.5% PHP729 | 1.9% PHP757 |
| Vacancy | > We project vacancy in the secondary market to rise due to softer take-up following the COVID-19 outbreak. Vacancy will likely ease in 2021 as we expect a rebound in secondary residential demand. | +0.3pp 11.3% | +3.7pp 15% | -1.6 pp 11.7% |
| Capital Values | > Colliers sees residential prices declining in 2020. We see prices rising at a slower pace than rents in 2021, following a recovery of demand from local and foreign employees, including POGO workers. | 5.9% PHP246,000 | -15.1% PHP197,000 | 1.7% PHP203,700 |

Source: Colliers International. Note: USD1 to PHP51 as of the end of Q1 2020. Demand represents net take-up (in units). Rent and capital values are per sq metre. [1]Mid-income projects are priced between PHP3.2 million to PHP6.0 million. [2]POGO = Philippine Offshore Gaming Operators. [3]ECQ = Enhance Community Quarantine.

# RECOMMENDATIONS

### Developers should highlight property management measures

Property management is crucial to the safety and health of residential towers as well as unit owners. Therefore, we recommend that developers strengthen and highlight their property management capabilities. These should include effective disaster preparedness plans and sanitation measures to avoid viral infection and transmission.

### Offer flexible payment packages and terms to attract buyers

Colliers encourages developers to offer more flexible payment packages and terms to potential buyers. With a slowdown in economic activities and stoppage of work, we believe that now is an opportune time for developers to be more proactive and to touch base with buyers. In our opinion, proactive developers are likely to stand out when the pandemic wanes, similar to those who stood out after the Asian and Global Financial Crises.

### Developers should explore creative leasing models

We encourage developers with substantial supply of Ready-for-Occupancy (RFO) units to explore more creative leasing schemes. In our opinion, developers should explore leasing out condominiums as shared units to outsourcing employees, as living in dorms near their workplaces has now become an integral part of business continuity plans for these firms.

### Investors to take advantage of better pricing

In our opinion, now is the time for condominium buyers to take advantage of better pricing in the market due to softer demand. The Bangko Sentral ng Pilipinas (BSP), the central bank, further lowered the interest rate by 50 basis points (bps) in March, in addition to the 25bps cut in February 2020[1]. This should result in lower mortgage rates, and in turn, further entice opportunistic investors to purchase lower-priced condominiums in the market. Colliers believes that if the pandemic persists beyond H1 2020, pricing in the secondary condominium market could soften to the level offered in the pre-selling period. In our opinion, buyers should watch for price cuts in the mid-income segment, those priced from PHP3.2 million (USD62,800) to PHP5.9 million (USD115,700) per unit.

[1] Bangko Sentral ng Pilipinas.
http://www.bsp.gov.ph/monetary/monetary.asp, March 30, 2020

# SLOWER COMPLETION IN 2020, REBOUND LIKELY IN 2021

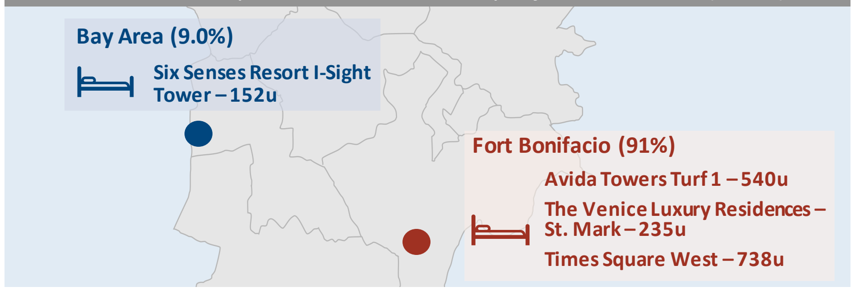
Around 1,670 new units were delivered in Q1 2020, the lowest number of completions recorded in the past six quarters. The new condominium units are located in Fort Bonifacio and the Bay Area.

For 2020, Colliers expects a slowdown in completion due to work stoppage following the enhanced community quarantine (ECQ) implementation in Luzon. We now expect the delivery of about 10,900 units, a 26% drop from the 14,700 units initially estimated for 2020. The work stoppage has pushed back the completion of a couple of residential towers due to be completed in Q4 2020 to Q2 2021. The downward adjustment in new supply should temper the increase in vacancy in the Bay Area, where the demand for residential units has primarily been driven by the Philippine Offshore Gaming Operators (POGO) sector since their entry in Q4 2016.

The work stoppage in March and April is likely to have a ripple effect on Metro Manila's residential supply up to 2022. While we see completion picking up in 2021 with 7,900 units, we see the capital region's stock by the end of 2022 reaching only about 155,730 units, down from our initial forecast of 158,290 units. This comes with the delay of a few selected projects located in the Bay Area, Alabang, and Makati CBD. Projects initially scheduled for H2 2022 were delayed to 2023.

Completed
**7,900 units**
completion in 2021
(previous forecast was 7,190 units)

Metro Manila completed condominium projects, Q1 2020 (units)




Source: Colliers International. Percent represents proportion to total Q1 2020 completions.

# VACANCY TO RISE

Vacancy in Metro Manila's secondary market, which includes ready-for-occupancy (RFO) units in key business districts, slightly increased to 11.3% in Q1 2020, up from 11.0% in Q4 2019. In our opinion, the full impact of the pandemic on vacancy is likely to be seen in Q2 2020.

Colliers expects vacancy to rise to 15% in 2020 from 11% in 2019. The higher vacancy factors in the lower demand caused by the COVID-19 health crisis coinciding with the delivery of almost 11,000 units in 2020. We initially estimated vacancy to be at 19% considering our initial supply projection of 14,700 units in 2020 and slower take-up from the POGO sector.

Colliers believes that while overall demand for condominiums in Metro Manila is likely to decline in 2020, business districts, such as the Bay Area, are at risk of greater impact. In business districts, much of the take-up has primarily been driven by POGOs over the past three years. In areas outside of the Bay Area, demand is also likely to be tempered by concerns about rising unemployment as well as a fall in overseas worker remittances projected by the National Economic and Development Authority (NEDA). Economic analysts are projecting remittances to drop by USD3.0 billion (PHP153 billion) to USD6.0 billion (PHP306 billion) in 2020[1], about 10% to 20% lower compared to remittances received in 2019. Anecdotally, these remittances partly fuel demand for condominium units classified as affordable (PHP1.7 million to PHP3.2 million or USD33,300 to USD62,800) and mid-income (PHP3.2 million to PHP5.9 million or USD62,800 to USD115,700) segments.

Assuming the pandemic is contained in H1 2020, the Philippine government's economic managers and credit rating agencies are projecting an economic recovery by 2021. Colliers believes that a rebound of Metro Manila's office sector in 2021 is likely to have a spillover impact on residential demand. Therefore, Colliers expects an increase in demand in key business districts where outsourcing and traditional [2] occupiers are concentrated. Among the business districts likely to benefit from a pick-up in residential demand are Fort Bonifacio, Alabang, Ortigas Center, and Rockwell Center.

[1]BusinessMirror, Virus, oil price plunge to cut 400-k OFW jobs, 2020. [2]Consists of companies in various sectors including legal, engineering and construction, government agencies and flexible workspace operators. [3]Asian Financial Crisis. [4]Global Financial Crisis.

# RENT GROWTH TO RECOVER

The Philippine economy and property market are facing a tremendous challenge. The scale of this pandemic is unprecedented in recent history. This is likely to result in softer demand for condominium units in Metro Manila. Colliers sees rents in the secondary residential market falling by 5.5% in 2020. This is slower than the 15% contraction during the Asian Financial Crisis in 1998 but steeper than the 3.7% fall in 2009 during the Global Financial Crisis.

Historically, about a year after the Asian and Global Financial crises, rents rebounded. With economic growth and office leasing likely to pick up pace in 2021, this should support demand for condominium units all over Metro Manila, and we expect lease rates to grow at a moderate rate of about 1.9% annually from 2021 to 2022. Colliers also sees rent growth picking up in areas where POGOs have pre-leased office space, such as Quezon City, Alabang, and Bay Area especially once the travel bans are lifted and expansion from these firms sustains pace in 2021.


# PRICES TO DIP IN 2020

## But economic expansion to lift values in 2021

Assuming the worst-case scenario of an economic contraction (-0.6%) projected by NEDA and the absence of demand from the POGO sector which played a major role in raising condominium prices sine 2017, Colliers sees residential prices dropping by about 15% in 2020 with a slow recovery in 2021 assuming the pandemic is contained starting Q3 2020.

The pent-up demand should lead to higher take-up in 2021 once market conditions improve. Previous crises have shown that prices recover immediately once market sentiment and business activities start to improve. During the AFC [3], prices dropped between 9% and 14% from 1998 to 1999, followed by a recovery in 2000 when prices grew by 24%. The same trend was observed during the GFC [4] when prices dropped by 1.5% in 2009 and immediately recovered in 2010 with a 2.1% increase in average prices.

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