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EXPANDING ONLINE STRATEGY AMID COVID-19

Mall operators and retailers tweak strategies to respond to challenges posed by the global pandemic

Insights & Recommendations

The slowdown of the country's economy, erosion of consumer confidence as well as implementation of physical distancing measures are likely to adversely impact retail demand in Metro Manila. As a result, we see vacancy rising in 2020 before a slow recovery in 2021 and 2022.

To seize upon opportunities presented by improved market sentiment, we encourage mall operators to:

- Line up marketing efforts to recapture demand once the pandemic wanes
- Provide short-term rental relief measures to support retailers
- Ensure maximum hygiene standards in malls

Meanwhile, we recommend that retailers expand their online presence and target the elderly.

		Q4 2019-Q1 2020	Full Year 2020	2020–22 Annual Average
Demand	We expect muted absorption of retail space in 2020 due to reduced consumer spending and implementation of social distancing. An economic rebound in 2021 is likely to help boost retail spending.	▼ 69,800 sq metres	▼ 50,700 sq metres	▲ 275,700 sq metres
Supply	Colliers expects slower completion of retail space due to work stoppages following the imposition of the ECQ* in Luzon. New supply is likely to recover slightly in 2021 and 2022 as developers hasten mall development in a scramble to recapture demand.	▼ 120,200 sq metres	▼ 108,300 sq metres	▲ 351,900 sq metres

		Q4 2019-Q1 2020 / End Q1	YOY / End 2020	Annual Average Growth 2019–22 / End 2022
Rent	Colliers sees rents declining in 2020 due to slower consumer spending brought about by the economic slowdown and dip in remittances from Filipinos working abroad. We project a slow recovery in rents in 2022.	0.0% ◄► PHP1,628	-5.0% ▼ PHP 1,549	-2.3% ▼ PHP 1,518
Vacancy	Colliers projects a rise in vacancy in 2020 as households are likely to skimp on non-essential retail. The rise in vacancy is likely to be tempered by a slower delivery of new retail space in 2020 and 2021.	+0.2pp ▲ 10.0%	+2.2pp ▲ 12.0%	+0.6pp ▲ 11.5%

Source: Colliers International. Note: USD1 to PHP51 as of the end of Q1 2020. 1 sq metres = 10.76 square ft. Note: Regional malls have a gross leasable area of between 50,000 sq metres (538,000 square feet) to 99,999 sq metres (1.08 million square feet). *ECQ = Enhanced Community Quarantine

RECOMMENDATIONS

Expand offline-to-online strategies

Physical malls have felt the immediate pinch brought about by the government's imposition of an ECQ in Luzon and social distancing measures due to the COVID-19 pandemic. The ECQ forced malls to close, with only the stores supplying essential items such as groceries, medicines, and food for delivery open during the ECQ. Colliers believes that social distancing is likely be part of the new normal even if the government lifts the ECQ on May 16. Hence, a significant number of physical retail shops are likely to remain closed for additional time. However, brick-and-mortar retailers are trying to tap the demand by expanding their online presence. Colliers expects more retailers to create their own e-commerce sites, utilize the existing sites of major mall operators, or use popular social media sites such as Facebook and Instagram.

In our opinion, these expanded online strategies should also target the elderly, who are among the most vulnerable segment of the population during the pandemic but are now actively embracing online shopping.

Expanded partnerships with logistics firms

The social distancing measures have been compelling consumers to rely heavily on deliveries. Mall operators and retailers should consider firming up partnerships with delivery companies that have modernized warehouses and efficient logistics systems to maximize their shift from brick-and-mortar to online selling.

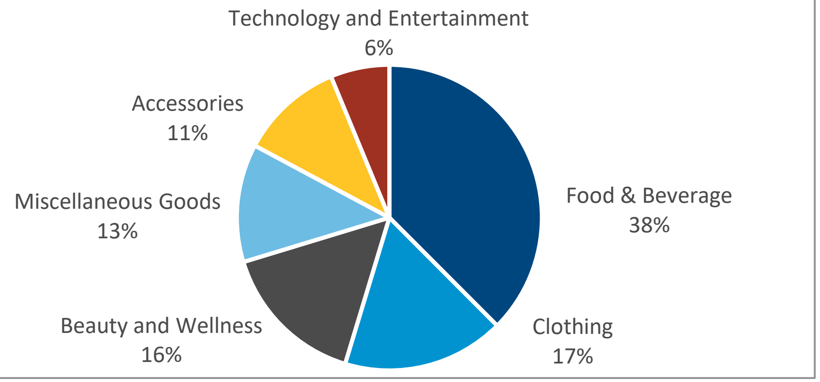
Improve marketing efforts to recapture demand

Colliers believes that the ECQ and the travel restrictions imposed are likely to lead to a decline in retail footfall among malls in Metro Manila. In our opinion, mall operators should line up their marketing efforts now to recapture demand once market conditions improve.

Provide short-term relief measures and highlight sanitation

Colliers encourages mall operators to provide short-term rental relief measures. Luxury retail, for instance, was adversely affected by the 40% reduction[1] in foreign arrivals in the first two months of 2020. This retail segment was also affected by the slower influx of new offshore gaming

Upcoming tenant composition, 2020-2021



Source: Colliers International

employees during the period. Colliers believes that malls should also ensure hygiene standards through adequate ventilation and sterilization.

COMPLETION TO SLOW DOWN

From Q4 2019 to Q1 2020, about 120,200 sq metres (1.3 million square feet) of new retail space was completed. This raised Metro Manila's retail stock to 7.2 million sq metres (77.4 million square feet) by Q1 2020. Colliers saw the completion of Megaworld's Alabang West Parade, Filinvest's The Crib Mall, 8990 Holdings' Deca Mall Tondo and Assembly Grounds at the Rise in Makati fringe during the period under review.

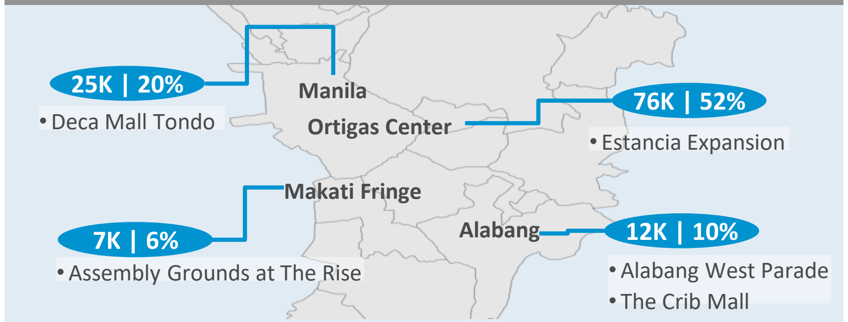
Colliers sees the completion of new malls for the remainder of 2020 being delayed by work stoppage across Metro Manila. We now expect the delivery of a couple of malls to be pushed back by three to six months. From our initial estimate of 1.2 million sq metres (12.9 million square feet) of new leasable supply from 2020 to 2022, we now see a 20% reduction in delivery or close to about 1.0 million sq metres (10.8 million square feet) of new space during the period.

Among those due to be completed from 2020 to 2022 are Gateway Mall 2, Mitsukoshi Mall, One Ayala Retail, SM City Grand Central, and the expansion of Ayala Triangle retail.

[1]Ibanez, J. & Villegas, V. *DoT maps counter-virus measures*.

Colliers has observed that among the new malls likely to open from 2020 to 2022 are those within integrated communities or adjacent to office towers in major business districts that cater to the essential needs of nearby residents and employees. We also see these malls benefiting from the government's projected economic rebound in 2021 and 2022 which should partly raise consumer confidence and purchasing power.

New supply and submarket % of total supply, Q4 2019 - Q1 2020



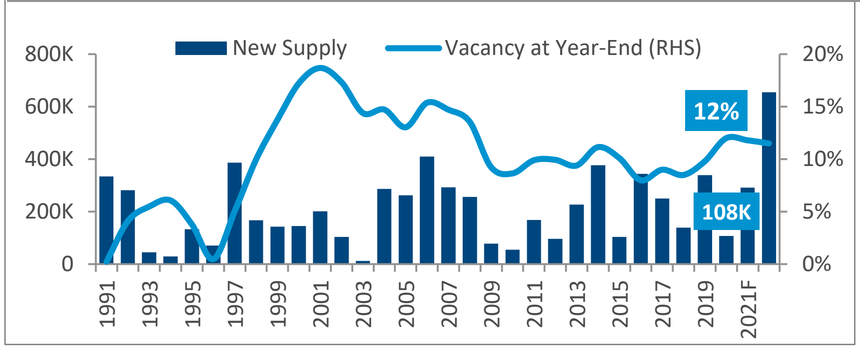
Source: Colliers International

VACANCY TO INCH UP

Metro Manila's retail vacancy rose slightly to 10% in Q1 2020 from the 9.8% in Q3 2019. The rise in vacancy was marginal as the smaller neighborhood malls (25,000 sq metres or 269,000 square feet and below) that opened during the period were almost fully occupied. Meanwhile, a new regional mall's space was significantly taken up by a department store, personal accessories and wellness shops, and a couple of food and beverage (F&B) retailers.

Colliers believes that even with a partial lifting of the ECQ on May 16, most Metro Manila consumers are likely to limit spending to essentials, including groceries, medicines, and F&B for delivery. The continued implementation of social distancing measures by the government is likely to result in a calibrated and gradual opening of retail spaces in the capital region. Given the profile of upcoming retailers in 2020, Colliers estimates that only about 50% of new leasable space due to be completed in the next 12 months is likely to be absorbed, raising Metro Manila's vacancy to 12% by the end of 2020.

Metro Manila retail vacancy, 1991-2022



Source: Colliers International

Studies by the Asian Development Bank (ADB)[2] and the Philippine central bank show that more than 90% of remittances received by Filipino households are spent on basic needs such as food, fueling retail consumption. The central bank also downgraded its remittance growth forecast[3] for 2020 to 2% from the previous 3% before the onset of the COVID-19. This is likely to erode consumer purchasing power and confidence. Data from the central bank show that remittances are affected by regional and global financial crises. During the Asian Financial Crisis, remittances dropped to USD6 billion in 1999 from USD7.4 billion in 1998. During the global economic turmoil, remittance growth slowed to 6% in 2009 after a 14% increase in 2008. In our opinion, the recovery of retail demand in 2021 hinges on the pace of expansion of Philippine and global economies.

RENTS TO DECLINE IN 2020; SOFT REBOUND IN 2021-2022

Colliers projects a 5% decline in rents in 2020 as mall operators scramble to retain their current tenant mix and provide short-term relief measures to retailers affected by the Luzon lockdown. We see average rents declining 2% in 2021 before a slight recovery (+1%) in 2022. An improving macroeconomic environment and consumer confidence by the end of 2021 should result in at least a minor rise in rental rates as mall operators and retailers re-capture pent-up retail demand.

[2]Jha, S., Sugiyarto, G. & Ang, A. *Remittances and Household Behavior in the Philippines*.; [3]Noble, L. *BSP cuts outlook for remittance growth to 2%*.

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