COLLIERS OUTLOOK

OUTLOOK FOR 2020:

Landlords and tenants recalibrate amid a constantly evolving property landscape

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Summary & Recommendations

Colliers believes that over the next 12 months, developers should continue to adapt to the evolving preferences of investors and tenants to survive in a fiercely competitive Philippine property market.

In our opinion, developers should actively engage in discussion with the government and other stakeholders regarding policies and programs that are likely to further redefine the property market over the next 12 months. These include:

- looking for opportunities to capture demand from foreign retailers in light of the lower capital requirements for foreign retailers;
- capitalize on opportunities for transit-oriented development in urban areas Metro Manila, following the infrastructure development.

		Rental Market	Vacancy	Supply
Office	Colliers projects new supply of about 1.0 million sq metres (10.8 million sq feet) and a net take-up of 960,000 sq metres (10.3 million sq feet) in 2020. We project vacancy to reach 6.2% with rents growing by about 5.5% by the end of 2020.	5.5%	6.2%	1.0 million sq m
Residential	Colliers projects the delivery of about 15,610 units in 2020, outpacing the annual completion of 10,700 units from 2016 to 2018, a period that benefited from the trickle-down impact of offshore gaming demand.	7.2%	11.5%	15,610 units
Retail	We expect the completion of about 310,000 sq metres (3.3 million sq feet) of new retail space in 2020. Due to the substantial new supply, we see vacancy rising to about 12% with lease rates rising at a slower pace of 1.0% from 1.3% in 2019.	1.0%	12%	310,000 sq m

		Average Daily Rate (ADR)	Occupancy Rate	Supply
Hotel	Colliers expects the completion of about 3,300 rooms in 2020. The increase in hotel supply is likely to be absorbed by the sustained growth in foreign arrivals and should bring occupancy rates to about 70% in 2020.	USD78	70%	3,300 rooms

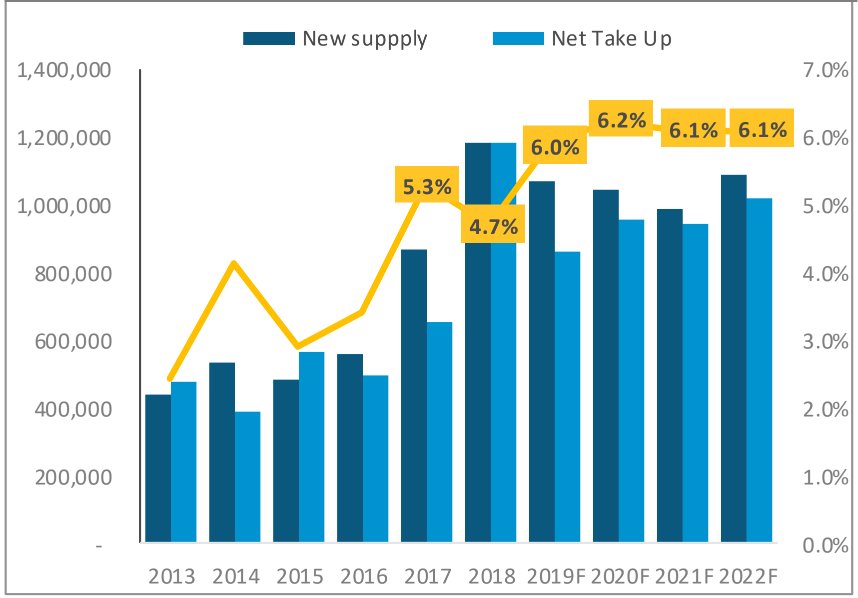
Source: Colliers International
Note: USD1 to PHP52 as of the end of Q3 2019. 1 sq m = 10.76 sq ft

1. DIVERSE OFFICE DEMAND

Colliers believes that Metro Manila office's demand drivers are likely to remain diversified in 2020. Prior to the entry of Philippine Offshore Gaming Operators (POGOs), outsourcing firms such as call centres and shared service providers easily accounted for more than 50% of all office leasing deals. Colliers has observed that the demand base started to diversify in Q4 2016 and we see this trend continuing over the next 12 months. Traditional occupiers**, business process outsourcing (BPO), knowledge process outsourcing (KPO) firms (such as health information management and software engineering firms), and POGOs are likely to dominate Metro Manila office space take-up in 2020.

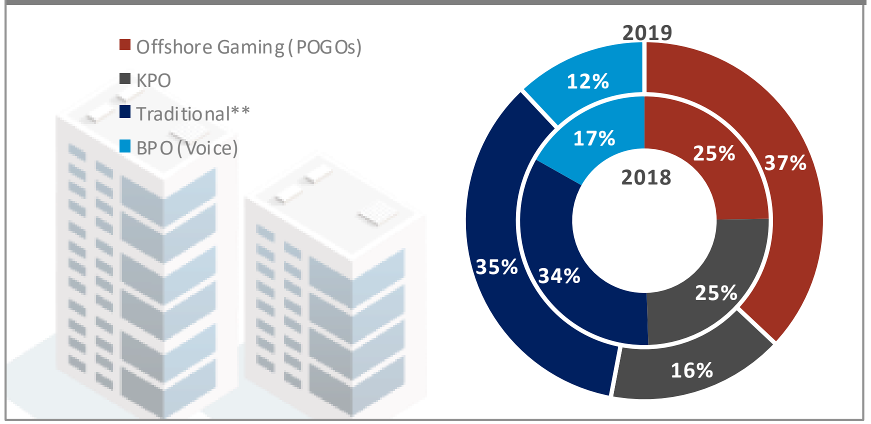
We see sustained demand from these four major demand segments in 2020. Meanwhile, Colliers encourages landlords to help outsourcing tenants identify viable alternative sites outside Manila particularly with the national government's push to expand outsourcing operations in second and third-tier cities. POGO firms have also started to occupy space outside Metro Manila and landlords should offer leasing options in cities that accommodate POGO operations such as Cebu, Laguna and Clark in Pampanga.

Metro Manila office market (2013-2022F)



Source: Colliers International

Total office transactions, 9M 2018 (inner circle) vs. 9M 2019 (outer circle)



Source: Colliers International

**Includes companies in various sectors including legal, engineering and construction, government agencies and flexible workspace operators.

In the office segment, among the headwinds that Colliers sees over the next three years are:

- Slower GDP growth (multilateral lending firms such as the Asian Development Bank (ADB) and foreign banks) are now projecting 6.0% growth from the previous 6.2%. A slower domestic economy is likely to slow down the expansion of traditional and non outsourcing tenants;
- Outsourcing firms (call centres and shared service firms) taking a wait-and-see stance due to uncertainty over the government's tax reform proposal which intends to reduce tax perks that these firms currently enjoy; and
- Lingering concerns on the sustainability of offshore gaming firms in Metro Manila.

Colliers recommends that developers consider these factors as they prepare for their pipeline beyond 2022.

2. RESIDENTIAL MARKET DRIVEN BY TRAFFIC CRISIS

Dearth of developable land also in focus

The construction and rehabilitation of railways and expressways across Metro Manila has resulted in fierce traffic jams across the capital's major roads. The train lines, expressways and subways that are currently being built or rehabilitated, won't be completed until 2022 to 2025, further aggravating traffic in major business districts in Metro Manila such as Makati CBD, Ortigas Center, Fort Bonifacio, and the Bay Area. This has compelled developers to build co-living residential projects near key business hubs 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. In 2020, we see developers continuously exploring opportunities amidst the traffic crisis by building co-living projects that cater to employees of major hubs such as Makati CBD, Bay Area and Fort Bonifacio.

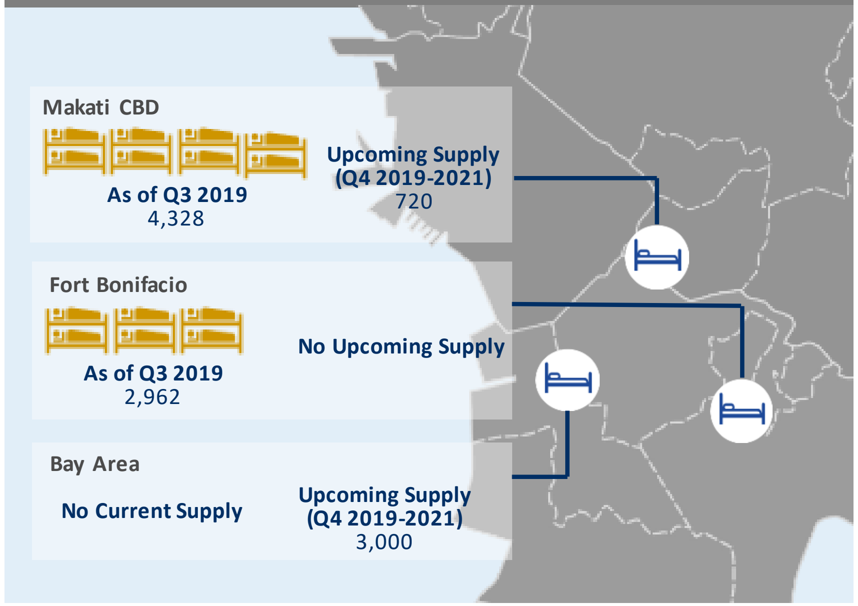
Condominium supply forecast (2018-2021F)

Location	End 2018	2019F	2020F	2021F	End 2021	Change (2021 vs 2018)
Alabang	4,230	200	450	500	5,380	27.2%
Araneta Center	4,550	-	-	-	4,550	0.0%
Eastwood City	8,540	630	-	120	9,290	8.8%
Fort Bonifacio	32,230	3,800	2,300	2,460	40,790	26.6%
Makati CBD	27,020	860	670	-	28,550	5.7%
Bay Area	19,850	2,580	11,590	4,050	38,070	91.8%
Ortigas Center	17,940	800	600	230	19,570	9.1%
Rockwell Center	4,510	760	-	540	5,810	28.8%
Total	118,870	9,630	15,610	7,900	152,010	28%

Source: Colliers International

In terms of pre-selling condominium projects, Colliers sees sustained demand from investors and local and foreign employees with the Bay Area, Quezon City, Ortigas Center and its fringe area dominating take-up across the country's capital. Colliers sees developers cashing in on the demand by relentlessly building residential projects in Metro Manila in 2020. Over the next 12 months, Colliers projects the delivery of about 15,610 units in the capital region, outpacing the annual completion of 7,700 units annually in 2012 and 2014 and even higher than the 10,700 units delivered from 2016 to 2018, a period that already benefitted from the trickle-down impact of offshore gaming demand.

Co-living supply forecast, (no. of beds)



Source: Colliers International

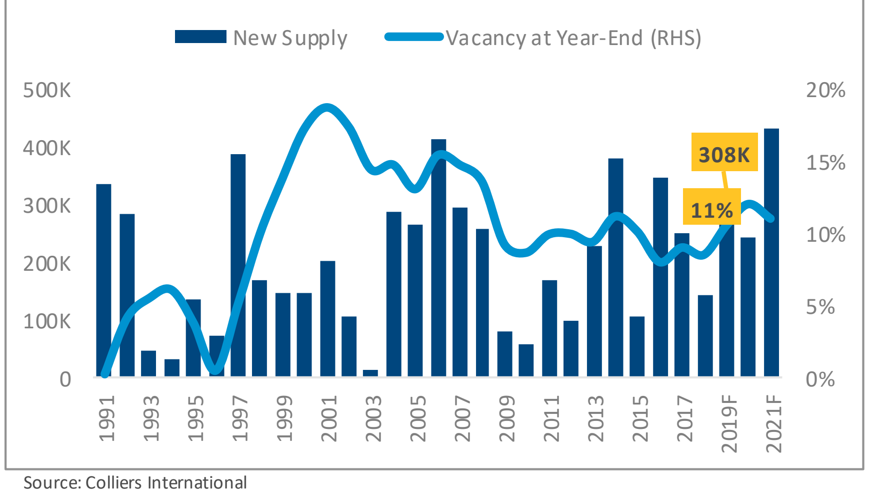
Metro Manila's condominium stock should expand to 152,000 units by the end of 2021, a 28% rise from about 118,900 in 2018. Colliers sees Fort Bonifacio and the Bay Area covering more than 80% of new supply from 2019 to 2021. In our opinion, the pace of residential completion continues to move in step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

3. MORE INNOVATIVE STRATEGIES IN FILLING RETAIL VACANCIES

Colliers sees the completion of about 1 million sq metres (10.8 million sq feet) of new leasable retail supply over the next three years. In our opinion, mall operators should continue to implement innovative leasing strategies and attract interesting tenants to fill the substantial amount of new retail space.

Despite the completion of additional malls in 2020, we see vacancy peaking at only 12%, up only slightly from our projected 11% in 2019, as we expect increased absorption of retail space during the period. Vacancy should decline back to about 11% by the end of 2021 given the take-up from new tenants and a slightly muted retail space completion metro-wide. In our opinion, retail space absorption over the next 12 to 24 months should be supported by the completion of office and residential towers near malls located within major townships across Metro Manila. Aside from sustained demand from local consumers, retail sales should also be buoyed by the continued expansion of offshore gaming firms in Metro Manila.

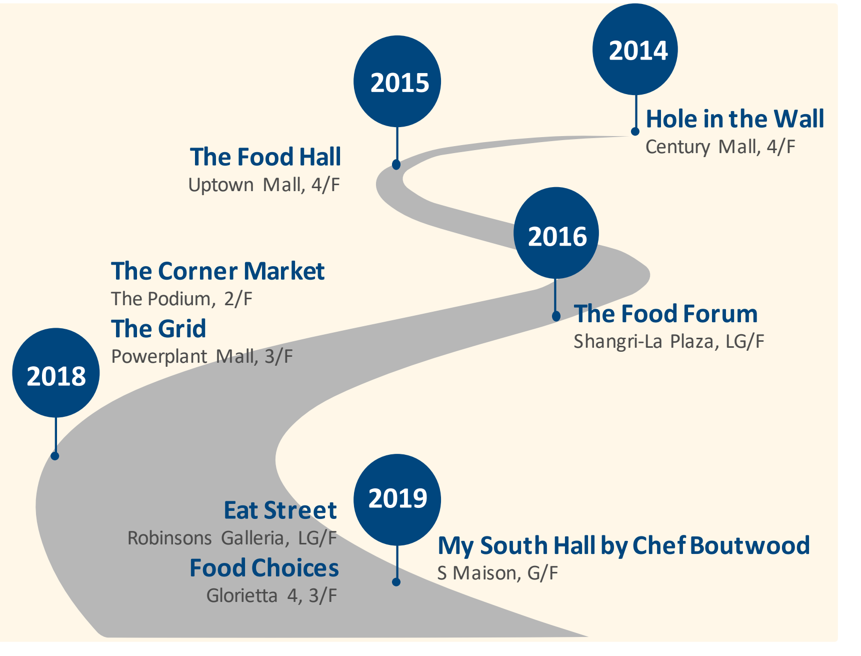
Metro Manila Retail market (1991-2022F)



Source: Colliers International

Colliers has also seen the re-emergence and refurbishment of food courts in Metro Manila's malls. This started with Century City Mall's *Hole in the Wall* in 2014 and Powerplant Mall's *The Grid* in 2018. Some of these are farmer's market-themed fresh produce as well as curated local and foreign food and beverage (F&B) brands. Colliers believes that these food courts have incorporated unique themes and modern designs, creating a stand-alone destination within the mall. Over the next twelve months, we expect a more pronounced refurbishment of food courts in malls across Metro Manila.

Metro Manila food courts



Source: Colliers International

Over the next 12 months, Colliers believes that a major opportunity for Metro Manila mall developers is the housing of flexible workspaces. Colliers has observed that flexible workspace operators are continuously looking for space across Metro Manila. But with office vacancies hovering between 0.5% and 1.0% in prime locations such as Makati CBD and the Bay Area, these operators have been scrambling to find suitable space.

4. CHINESE TO DRIVE HOTEL OCCUPANCY AND SPENDING

In our opinion, a key contributor to rising hotel occupancy and tourist spending in the country is the rising number of Chinese arrivals. We believe that rising disposable incomes, relaxed visa rules, and aggressive promotions of low-cost flights are encouraging more tourists to travel outside of Mainland China.

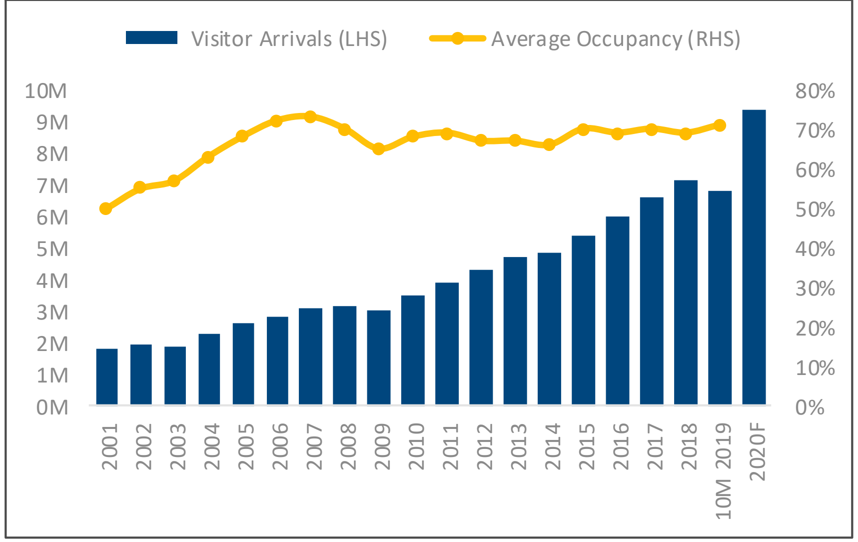
Latest data from the Department of Tourism (DOT) show that tourist arrivals reached 6.8 million for the first ten months of 2019, up 15% from the 5.9 million arrivals in the same period in 2018. South Koreans are still the country's largest tourist market with 1.6 million arrivals, followed by Chinese with 1.5 million arrivals. While total foreign arrivals grew by 10% per year from 2016 to 2018, Chinese tourists increased by about 37% per year during the same period.

Over the next twelve months, we still see Chinese tourists driving the hospitality sector and contributing to higher hotel occupancy and spending in Metro Manila and other key destinations across the country.

Metro Manila Hotel Supply Forecast (2016-2022F)

Source: Colliers International

Philippines visitor arrivals vs. Metro Manila Hotel Occupancy



Source: Colliers International
Note: Tourist Arrivals as of October 2019

From 2020 to 2022, we expect the completion of about 7,800 rooms or 2,600 rooms annually. Annual new supply is likely to peak in 2020, followed by a gradual decline from 2021 to 2022.

We still project a 70% occupancy from 2020 to 2022 as the continued rise in foreign tourists should sustain occupancy despite the delivery of new hotel rooms. This growth should be supported by the tourism department's aggressive international marketing programs and the government's efforts to expand and modernize airports nationwide.

In our opinion, developers should build more three- and four star hotels as they cater to the country's major tourist groups such as Chinese, Japanese, and Koreans. Colliers believes that Quezon City remains a viable location due to the lack of quality accommodation in the area.

Colliers encourages developers to closely follow the government's airport development and redevelopment plans. Among the feasible locations for more accommodations due to the ongoing airport projects are Clark in Pampanga, as well as in Cavite, Bulacan, and Davao.

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