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

SEIZING OPPORTUNITIES

Residential developers continuously maximize opportunities despite looming challenges

Summary & Recommendations

Colliers sees a sustained growth in take-up despite threats of slower launches and dampened demand from the POGO[1] sector, whose sustainability is beset by national and local government regulatory issues.

Developers should continue seizing opportunities in the market by continuously launching projects in the fringes of major business districts and launching mid-income[2] projects.

Meanwhile, buyers should widen their requirements and explore condominium units being offered in recently-launched integrated communities in the northern and southern parts of Metro Manila. Buyers should consider the project's proximity to infrastructure projects due to be completed in 2-3 years.

		Q4 2019	Full Year 2020	2020–22 Annual Average
Demand	> Colliers expects demand for secondary or completed units to remain firm in Makati CBD, Rockwell, and Fort Bonifacio. We still see a sustained demand for pre-selling units especially those in the mid-income segment	▲ 2,500 units	▲ 11,700 units	▼ 7,900 units
Supply	> Colliers sees Metro Manila's residential stock breaching 158,000 units by the end of 2022. The Bay Area and Fort Bonifacio are likely to dominate supply, covering more than 80% of new supply from 2020 to 2022.	▲ 3,020 units	▲ 14,700 units	▼ 9,400 units

		QOQ / End Q4	YOY / End 2020	Annual Average Growth 2019–22 / End 2022
Rent	> We see a sustained pace of rental growth from 2020 to 2022 due to sustained leasing of secondary units in key CBDs. We see a faster acceleration of rents in residential towers that complement POGO offices.	2.8% ▲ PHP771	7.3% ▲ PHP827	7.5% ▲ PHP958
Vacancy	> Colliers sees vacancy peaking in 2020 due to substantial completion of new units especially in the Bay Area. Vacancy should start declining in 2021 as the completion of new units tapers.	+0.2pp ▲ 11.0%	+0.9pp ▲ 11.9%	-0.1 pp ▼ 11.7%
Capital Values	> Considering demand from the offshore gaming and outsourcing segments, we see stable take-up in Rockwell Centre, Makati CBD, Bay Area and Fort Bonifacio. This should sustain increases from 2020-2022.	9.4% ▲ PHP232,000	10.9% ▲ PHP257,000	12.4% ▲ PHP329,000

Source: Colliers International. Note: USD1 to PHP51 as of the end Q4 2019. 1 sq m = 10.76 sq ft. Demand represents net take-up (units). Rent and capital values are per sq metre. [1]POGO = Philippine Offshore Gaming Operators. [2]Mid-income projects are priced between PHP3.2 million to PHP6.0 million.

RECOMMENDATIONS

Aggressive development in the fringes

Inflation in 2019 averaged 2.5%, down from 5.2% in 2018, the highest in nearly a decade. This has resulted in lower interest rates which helped sustain residential take-up in 2019. A stable interest rate environment in the next 12 months should support take-up in 2020. Other factors likely to drive end-user and local investor demand are stable overseas Filipino workers' (OFW) remittances and consumer confidence based on a survey by the central bank[1]. Developers should continue to capture demand in the market by building more mid-income (PHP3.2 million to PHP6.0 million or USD62,700 to USD117,600 per unit) projects in fringe areas such as Quezon City south, Pasig, and Alabang-Las Piñas. These areas comprised 47% of all pre-selling residential launches in the first three quarters of 2019.

Investors and end-users to diversify projects

Some residential projects have recorded a consistent increase in prices over the past 24 to 36 months. While the offshore gaming demand was a factor, the take-up from foreign and local investors also contributed to a rise in prices. In our opinion, recently-launched projects in Makati and the Bay Area are likely to push average prices of pre-selling projects in Metro Manila further. Colliers believes that residential buyers should explore projects in other areas where prices are lower and capital appreciation potential is greater such as Ortigas Center and its fringes, Quezon City, downtown Manila, as well as Muntinlupa, Las Piñas, and Parañaque.

Explore projects in newly-launched township projects

With the dearth of developable land in major business districts in Metro Manila, developers have been scouting for parcels of land in northern and southern Metro Manila which can be developed into integrated communities. A new township, for instance, was launched in Q4 2019 in Novaliches, Quezon City. In our opinion, the northern part of the capital region is ripe for more integrated communities especially with the government's plan of building the first three Mega Manila subway stations in this corridor by the end of 2022. Investors should also consider available residential units in other integrated communities such as those recently launched in Tarlac and Laguna.

[1]Bangko Sentral ng Pilipinas.
http://www.bsp.gov.ph/downloads/Publications/2019/CES_4qtr2019.pdf, December 20, 2019

Ramped up completion in Fort Bonifacio

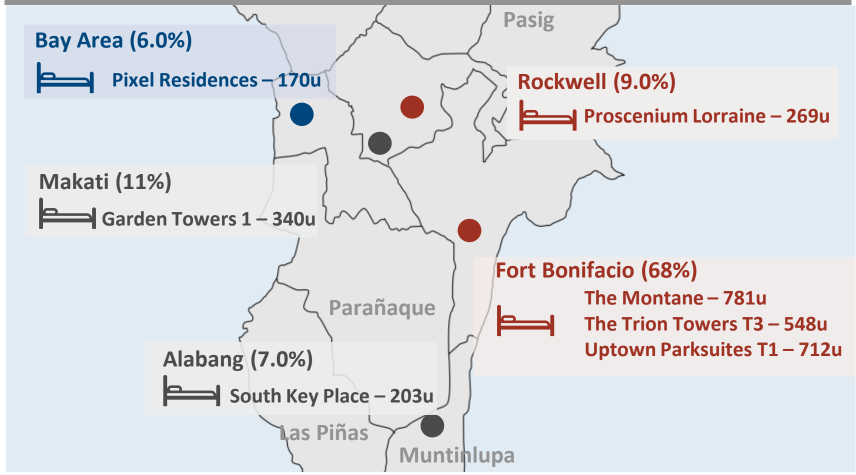
More than 3,020 units were completed in Q4 2019, higher than the 1,900 units delivered in the previous quarter. Colliers recorded a total of 11,200 new units completed in 2019. As of the end of 2019, Metro Manila's condominium stock stood at 130,090 units, higher than our earlier forecast of 128,500 as three projects in Fort Bonifacio and Makati CBD were turned over ahead of schedule.

We project Metro Manila's condominium stock to reach close to 158,300 units by the end of 2022, a 22% rise from about 130,100 in 2019.

A couple of condominium projects in the Bay Area are being constructed ahead of schedule as developers seize the demand from offshore gaming firms. Hence, we see the Bay Area regaining its stature as the top sub-market in terms of condominium completion in 2020.

Colliers projects Fort Bonifacio and the Bay Area to account for about 80% of completions from 2020 to 2022 due to sustained demand from POGO and outsourcing firms. Fort Bonifacio remains a preferred residential site as it houses new office buildings, high-end malls and restaurants, and international schools.

Metro Manila completed condominium projects, Q4 2019 (units)



Source: Colliers International. Percent represents proportion of total Q4 2019 completions.

Bay Area to overtake Makati CBD

Colliers believes that aggressive completion in the Bay Area should enable the business hub to overtake Makati CBD, an older business district, in terms of total residential supply by the end of 2020.

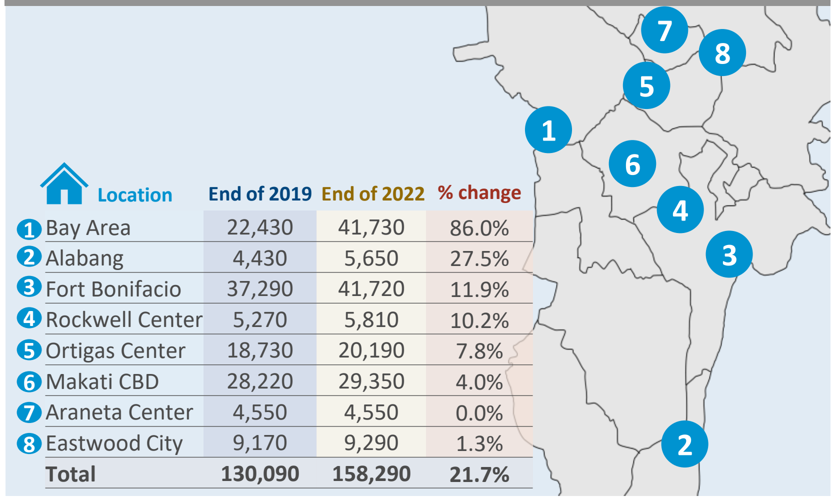
LEASING HOLDS FIRM

The secondary market, which covers completed units in key business hubs across Metro Manila, will likely be sustained by a mix of demand from offshore gaming employees as well as foreign and local investors and professionals.

The completion of additional units across Metro Manila resulted in a slightly higher overall vacancy in the Metro Manila secondary residential market of 11% in Q4 2019 from 10.8% in Q3 2019. This is in line with our previous forecast of 10.9%.

Colliers sees a vacancy in the secondary market increasing to 11.9% in 2020 as we project the completion of about 14,700 units. This is 60% higher than the annual average of 9,200 units delivered from 2010 to 2019.

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



Location	End of 2019	End of 2022	% change
1 Bay Area	22,430	41,730	86.0%
2 Alabang	4,430	5,650	27.5%
3 Fort Bonifacio	37,290	41,720	11.9%
4 Rockwell Center	5,270	5,810	10.2%
5 Ortigas Center	18,730	20,190	7.8%
6 Makati CBD	28,220	29,350	4.0%
7 Araneta Center	4,550	4,550	0.0%
8 Eastwood City	9,170	9,290	1.3%
Total	**130,090**	**158,290**	**21.7%**

Source: Colliers International. *Consists of companies in various sectors including legal, engineering and construction, government agencies and flexible workspace operators.

Over the next 12 months, Colliers sees a stable demand for completed units across Metro Manila, with the profile of occupants varying per sub-location.

The Bay Area, which is dominated by POGOs, continues to record strong leasing from POGO and outsourcing employees. In 2019, an estimated 93% of office deals in the area was covered by POGO and outsourcing firms and these segments should sustain leasing transactions in the business district in the next 12 months.

In Fort Bonifacio, we see knowledge process outsourcing (KPO) as well as traditional* tenants such as finance and equity firms sustaining lease transactions in the business hub in the next 12 months.

Leasing demand in in Makati CBD remains strong and we believe that take-up of secondary or completed units should continue to be fueled by local and foreign employees. Outsourcing firms as well as traditional tenants including multinational corporations accounted for 82% of office space deals in Makati CBD in 2019, driving residential leases in the area.

RENTS TO CONTINUE RISING

Average rents in prime three-bedroom units in Rockwell, Makati CBD and Fort Bonifacio rose by 3.5% QOQ. For Metro Manila, Colliers projects rents to grow by 7.5% annually from 2020 to 2022. Colliers expects sustained rental growth especially in key CBDs and their fringes that have recently accommodated POGO operations, including Ortigas Center and Quezon City. We see a faster pace of rental acceleration in 2022 as the delivery of new units tapers.

SUSTAINED PRICE INCREASE

Capital values continue to increase with average prices of prime three-bedroom units in the secondary markets of Rockwell, Makati CBD, and Fort Bonifacio ranging between PHP209,000 and PHP389,000 (USD4,100 and USD7,600) per sq metre as of the end of Q4 2019, increasing by an average of 10.9% QOQ. Overall, Colliers projects prices to increase by an annual average of 12.4% from 2020 to 2022, slower than our previous forecast of 13.6% due to the substantial number of units likely to be completed during the period.

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

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