Quarterly | Manila | 09 February 2022

Tilted to the upside

Landlords and tenants brace for a newer, better normal as leasing recovery gathers pace in H2

Insights & recommendations

Colliers Philippines saw an improvement in transactions in 2021 as traditional and outsourcing firms continue to drive transactions across Metro Manila. We are expecting a further improvement in deals in 2022. Supporting our projected recovery in office leasing is the completion of close to 900,000 sq metres (9.7 million sq feet) of new office supply.

Tenants should continue seizing opportunities in the market, including lower rates in new buildings in major hubs such as the Bay Area, Ortigas CBD, Quezon City and Alabang.

Landlords should continue lining up new projects and activate in a timely manner to capture demand as outsourcing and traditional occupants start reporting on-site.

		Q4 2021	Full Year 2022	2022–26 Annual Avg
Demand	Traditional** and outsourcing occupiers led office space take-up in 2021. We project net absorption to pick up in 2022 as occupiers execute expansion and return to office plans.	▲ -129,600 sq metres	▲ 307,400 sq metres	▲ 394,600 sq metres
Supply	Colliers sees close to 900,000 sq metres (9.7mn sq ft) of new office space in 2022, with nearly 60% of the new supply in the Bay Area, Ortigas CBD and Fort Bonifacio.	▲ 114,300 sq metres	▲ 897,900 sq metres	▲ 569,600 sq metres
		QOQ/ End Q4	YOY/ End 2022	Annual Avg Growth 2021–26/ End 2026
Rent	Office rents dropped by 12.4% in 2021, lower than the 17% decline in 2020. We expect a slow recovery starting in H2 2022 as we project a rebound in office leasing led by outsourcing and traditional firms.	-3.5% ▼ PHP746	-5.0% ▼ PHP709	+2.7% ▲ PHP846
Vacancy	Vacancy reached 15.7% in 2021, higher than the 9.1% posted in 2020. In 2022, we see vacancy rising to 18.9% due to muted pre-leasing and new office supply.	+1.8pp ▲ 15.7%	+3.3pp ▲ 18.9%	0.0pp ◀▶ 15.3%

Source: Colliers
Note: USD1 to PHP50 as of the end of Q4 2021. 1 square m = 10.76 square ft. *Also known as Philippine Offshore Gaming Operators (POGOs), primarily offshore gaming firms from China. **Traditional occupiers include companies in various sectors such as legal, engineering and construction, government agencies and flexible workspace operators.

> "The pandemic opened new avenues for collaboration between occupiers and landlords. Relationship building and mutual support will be key as businesses pivot towards recovery."
>
> **Dom Fredrick Andaya**
> Senior Director, Office Services-Tenant Representation

Recommendations

Stakeholders to push WFH perks from PEZA

In our opinion, the rising Covid cases due to the Omicron variant will likely delay occupiers' back-to-office initiatives. [1] Hence, the government should consider extending WFH flexibility.[2] Colliers believes that collaboration between government agencies and the private sector in keeping workplaces safe is crucial in ensuring business continuity.

Support the lifting of AO18

Colliers encourages landlords and occupiers to push for the lifting of Administrative Order 18 (AO 18) which imposed a moratorium on the approval and processing of new ecozones in Metro Manila. The Philippine Economic Zone Authority (PEZA) also supports the lifting of the moratorium as it sees the continued expansion of Information Technology-Business Process Management (IT-BPM) firms in Metro Manila. PEZA added that the pending IT-BPM investments in the capital region may still proceed despite the approval of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act. As of April 30, 2021, PEZA reported that there were about 10 inquiries for IT parks amounting to PHP15.5 billion (USD302 million) and one inquiry for a PHP574 million (USD11.1 million) IT park in Metro Manila.[3]

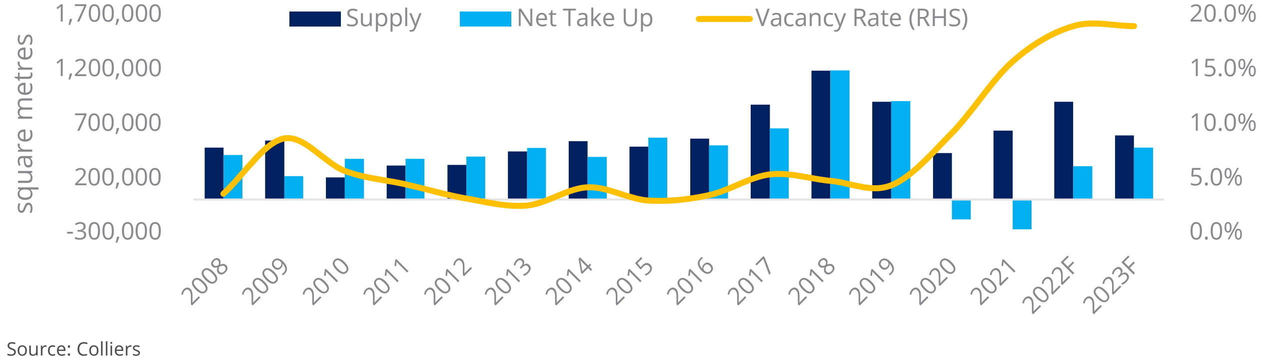
Lock in space in newer buildings in key CBDs

Colliers believes that the significant amount of new office space completed in 2021 of about 633,900 sq metres (6.8 million sq feet) gives expanding occupiers a broader selection of offices to move into. The 12.4% rental correction in 2021 also provides an opportunity for occupiers to lock in space in newer buildings in core locations in Metro Manila such as Fort Bonifacio and Ortigas CBD. Landlords should be more flexible with their terms to ensure a healthy level of occupancy in their buildings.

Partner with flexible workspace operators

Colliers has observed that some firms taking a wait-and-see stance during the pandemic are occupying flexible workspaces which they are using as *swing* or temporary offices. Firms also occupy these spaces while their offices are being redesigned or fitted out. Competitive rates and the availability of short-term leases entice tenants to occupy flexible spaces. Among the locations with significant amount of vacant flexible workspaces are Makati CBD, Fort Bonifacio and Ortigas CBD. Rates in these business hubs are about 20% cheaper compared to pre-2020 rents.

Metro Manila supply, demand and vacancy forecast (in sqm)



Source: Colliers

[1]Back-to-office delayed because of the Omicron variant; [2] (e.g. 90% of employees implementing WFH) especially to Philippine Economic Zone Authority (PEZA) registered companies such as outsourcing firms; [3]Peza pushes bid to lift NCR ecozone ban for IT-BPM

2021 supply up 48%

In 2021, Colliers posted the delivery of about 633,900 sq metres (6.9 million sq feet) of new office space, up 48% from the 427,900 sq metres (4.6 million sq feet) in 2020. This is lower than our previous forecast of 749,700 sq metres (8.1 million sq feet) due to document processing delays, limited manpower and muted pre-leasing.

In Q4 2021, we saw the completion of 114,300 sq metres (1.3 million sq feet) with the delivery of Sinocan Corporate Center in the Bay Area, 1210 Acacia, Southkey Hub 2 and One Trium Tower in Alabang, SM Fairview Tower 4 in Quezon City, 58 Jupiter and SJW Building in Makati Fringe and Alveo Financial Tower in Makati CBD.

In 2022, we expect new supply to reach 897,300 sq metres (9.7 million sq feet), up from our previous projection of 723,400 sq metres (7.8 million sq feet) due to the delayed completion of five towers. From to 2022 to 2025, we see average annual supply reaching 651,200 sq metres (7.0 million sq feet) with the Bay Area, Ortigas CBD and Quezon City accounting for close to 50% of the new supply during the period. The yearly supply is lower than the 982,700 sq metres (10.6 million sq feet) in annual completion from 2017 to 2019, also a period when about a third of demand was driven by POGOs.

Transactions jumped 18%

In 2021, Colliers recorded 422,400 sq metres (4.5 million sq feet) of office transactions, up 18% from 357,400 sq metres (3.8 million sq feet) posted in 2020. Traditional occupiers engaged in E-commerce and financial services, as well as government agencies and transport and logistics firms led take-up in 2021 followed by outsourcing companies. Among the firms that occupied space in the capital region include JP Morgan, Optum Global Solutions, Legato Healthcare, Netflix and D&V Philippines. These firms absorbed spaces in Ortigas CBD, Makati CBD and Fort Bonifacio.

The delivery of new office space of about 114,300 sq metres (1.3 million sq feet) in Q4 2021 has resulted in an office vacancy of 15.7% at the end of 2021. This is up from the 9.1% in 2020 and 13.9% in Q3 2021. Across submarkets, the Bay Area, Makati CBD and Alabang recorded substantial rise in vacancies QOQ.

Colliers believes that office vacancy is likely to increase further in 2022 due to the delivery of close to 900,000 sq metres (9.7 million sq feet) of new supply and low pre-commitment levels of upcoming buildings.

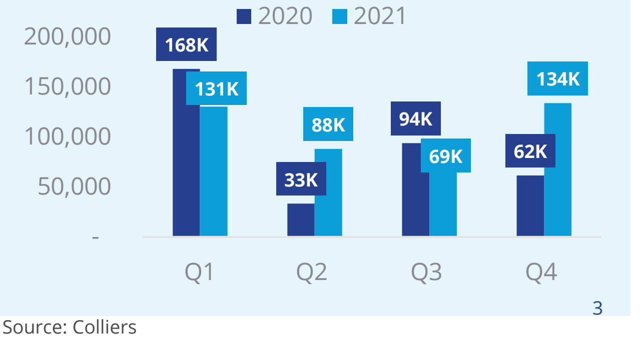
Meanwhile, net take-up in 2021 reached -273,100 sq metres (-2.9 million sq feet), lower than our projection of a −167,200 sq metres (−1.8 million sq feet) of net take-up in Q3 2021. In 2022, we see the office market slowly recovering especially at the latter half of the year as we project net take-up to reach 307,400 sq metres (3.3 million sq feet). We expect outsourcing and traditional occupiers to lead absorption in Metro Manila in 2022. Outside of the capital region, we see a healthy demand pipeline from Cebu, Iloilo, and Pampanga.

Gradual recovery

Average office lease rates dropped by 12.4% in 2021. This is lower than the 17% decline in 2020. We see a slow recovery starting H2 2022 supported by sustained office absorption as inquiries are likely to materialize after six to 12 months.

The completion of new office space and the substantial decline in rents in Fort Bonifacio, Ortigas CBD and Bay Area should enable occupiers to consider these prime locations for their expansion and return to office plans in the next 12 months.

Metro Manila office transactions per quarter, 2020 vs. 2021



Source: Colliers

For further information, please contact:

Joey Bondoc
Associate Director | Research | Philippines
+63 2 8858 9057
Joey.Bondoc@colliers.com

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

Dom Fredrick Andaya
Senior Director | Office Services | Philippines
+63 917 831 6725
Dom.Andaya@colliers.com

Maricris Sarino-Joson
Director | Office Services | Philippines
+63 917 316 2430
Maricris.Sarino@colliers.com

Martin Aguila
Senior Analyst | Research | Philippines
+63 2 8863 4116
Martin.Aguila@colliers.com

Brent Respicio
Research Analyst | Research | Philippines
+63 2 8863 4197
Brent.Respicio@colliers.com