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Bracing up for pent up demand

Supply recovers as developers maximize market recovery

Insights & recommendations

Residential demand across Metro Manila remains tepid. In the secondary market, leasing continues to be lukewarm due to the absence of demand from Philippine Offshore Gaming Operators (POGOs) and other expatriates while some local professionals went back to their home provinces.

- In the pre-selling market, take-up in 2021 is unlikely to outpace 2020 sales but we see opportunities in fringe areas.
- We recommend that developers continue highlighting the benefits of living within integrated communities and the towers' proximity to commercial establishments and public projects.
- Investors should take advantage of attractive payment terms and competitive mortgage rates.

		Q3 2021	Full Year 2021	2021–25 Annual Avg
Demand	Take-up for units in the secondary market remains lackluster due to the absence of demand from POGOs and slower demand from expatriates and local professionals.	▼ 745 units	▲ 3,650 units	▲ 6,190 units
Supply	No new units were completed in Q3 2021. We project the completion of 8,197 new units in 2021 from our initial estimate of 10,060 units due to construction delays.	◀▶ 0 units	▲ 8,197 units	▲ 7,482 units
		QOQ/ End Q3	**YOY/ End 2021**	**Annual Avg Growth 2020–25/ End 2025**
Rent	We expect rents to rise gradually in 2022 partly facilitated by the easing of lockdowns, improved inoculation program, and the government-projected economic recovery.	-0.7% ▼ PHP682	-4.6% ▼ PHP678	+0.8% ▲ PHP740
Vacancy	Colliers expects vacancy to increase by the end of 2021 due to the delivery of new condominium units. Vacancy should recede in 2022 backed by office leasing recovery.	+0.5pp ▲ 17.6%	+2.3pp ▲ 17.9%	+0.4pp ▼ 15.6%
Capital Values/Yields	In Q3 2021, prices dropped by 1% as demand for units in the secondary market remains subdued. Colliers retains its forecast of a slow recovery starting 2022.	-1.0% ▼ PHP188,240	-7.4% ▼ PHP186,540	+0.1pp ▲ PHP201,690

Source: Colliers
Note: USD1 to PHP51 as of the end of Q3 2021. Demand represents net take-up in the secondary market (in units). Rent and capital values are per sq metre and represent Prime and Grade A projects in selected submarkets.

"The recovery of the Metro Manila residential market hinges on the government's inoculation program, the rebound of the office market, competitive mortgage rates, higher OFW remittances as well as the attractive and flexible payment terms being offered by developers. The government-projected economic rebound in 2021 and completion of infrastructure projects should also play a pivotal role in pump-priming the secondary market. Developers should be relentless in lining up projects and landbanking in key locations to maximize market recovery beyond 2021."

Joey Roi Bondoc
Associate Director, Research

Recommendations

Highlight advantages of living within CBDs

To entice potential clients to invest and stoke demand in the pre-selling market, Colliers encourages developers to highlight the advantages of living in condominiums within Central Business Districts (CBDs). Given mobility restrictions caused by COVID-19, living within CBDs provides convenience through proximity to offices and retail establishments including those that offer health services. CBDs are also near infrastructure projects which could potentially raise land and property values.

Improve amenities in upcoming projects and rethink design and layout

Colliers has observed that most condominium developers have upgraded their amenities to adapt to the new normal. Some provide flexible workspaces with stable internet connection to satisfy the needs of unit owners who work from home and with kids doing homeschooling. Other features include the use of QR codes for user log in to avoid virus transmission, use of apps for payments and updates; and installation of safety barriers. Developers should highlight employing reputable property managers who ensure that safety and health protocols are being followed.

Monitor completion in submarkets with high vacancies, opportunities in fringes

In Q3 2021, we recorded an overall vacancy of 17.6% in Metro Manila. We recommend that developers re-assess their development plans in submarkets with high vacancies, driven by a substantial ready-for-occupancy (RFO) units. Developers should explore opportunities in fringe areas viable for new developments. From 2018 to H1 2021, we have seen aggressive launches and take-up in developable areas outside of major business hubs such as Caloocan-Malabon-Navotas-Valenzuela (CAMANAVA) corridor, Pasig, Quezon City North, and Manila South.

Innovative promos for preselling

In 9M 2021, Colliers recorded a net take-up of 7,900 units in the pre-selling market. This is a 70% decline from the 26,200 units taken up a year ago. To re-capture demand, developers continue to offer promos and flexible payment schemes. A number of developers are offering lease-to-own terms for their RFO units. Other common offerings include *no spot down payment* terms, 0% interest on down payments for up to 5 years, early move-in promos, *reserve now, pay later* schemes, and discounts of up to 20% on Total Contract Prices (TCPs). Some developers also bundle these promos with gift vouchers, jewelry, appliances, and parking slots. We encourage developers to be more innovative with their promos.

2021 supply up 143%

No new condominium units were delivered in Metro Manila in Q3 2021. However, we anticipate new supply by Q4 2021 from SMDC, Megaworld, Federal Land to be concentrated in the Bay Area. Upcoming completions include S Residences Building 2 and 3, and Six Senses Resort I-Yum Tower which with a total of 1,540 units will make up 85% of upcoming supply. Accounting for the remaining 15% are the Albany – Kingsley Building in Fort Bonifacio and Citrine Residences in Makati CBD.

Metro Manila residential stock forecast, end of 2020 and 2023 (units)

	End of 2020	End of 2023	% Change
1 Bay Area	22,750	37,720	65.8%
2 Alabang	4,880	5,910	21.1%
3 Fort Bonifacio	39,100	43,060	10.1%
4 Rockwell Center	5,270	5,830	10.6%
5 Ortigas Center	18,730	21,560	15.1%
6 Makati CBD	28,550	29,600	3.7%
7 Araneta Center	4,550	5,140	13.0%
8 Eastwood City	9,630	9,630	0.0%
Total	**133,460**	**158,450**	**18.7%**

Note: Google Maps estimated private vehicle travel time to Makati: Bay Area-17 min, Alabang-24 min, Fort Bonifacio-14 min, Rockwell Center-9 min, Ortigas Center-15 min, Araneta Center-23 min, Eastwood City-29 min.

This will bring a total completion of 8,200 units in 2021, up 143% from the 3,370 units completed in 2020. We expect the delivery of about 7,500 units per annum from 2021 to 2025, with about 74% of new supply still likely to come from the Bay Area and Fort Bonifacio.

Vacancy to ease in 2022

In Q3 2021, vacancy in the Metro Manila secondary market reached 17.6% from 17.1% in Q2 2021. This is due to the number of new completions during H1 2021. By the end of 2021, we project vacancy to peak at 17.9%, up from the previous forecast of 17.6%. We see vacancy slightly easing to about 17.3% in 2022 anchored by economic rebound, improvement in vaccination, and gradual recovery in office leasing which should support the return to traditional offices.

Among all submarkets, the Bay Area recorded the highest vacancy of 24.5% in Q3 2021, mainly due to weakened demand from POGOs, one of its primary demand drivers. In 9M 2021, POGO transactions totaled only 26,700 sq metres (287,400 sq feet), down by 45% from 9M 2020. Other factors affecting demand in CBDs are slowdown in office absorption, expatriates unable to return to the Philippines due to travel restrictions and local professionals going back to their provinces as their employers implement Work-From-Home.

Based on the Q3 2021 Consumer Expectations Survey (CES) and the Business Expectations Survey (BES) of the Bangko Sentral ng Pilipinas (BSP) or the central bank, the overall consumer and business expectation outlook in Metro Manila continued to drop to −15.1% and −7.9% respectively. However, we see optimism in Q4 2021 with the improvement of consumer and business outlook to 7.1% and 33.0% respectively.

Stable Overseas Filipino Worker (OFW) remittances and competitive mortgage rates should help in boosting residential demand. OFW remittances reached USD20.4 billion (PHP1.0 trillion) from January to August 2021[1], a 5.7% growth YOY. The central bank is projecting remittances to grow by 6% this year from an initial forecast of 4%.[2] On the other hand, average bank mortgage rates remain competitive, at 7.2% in Q3 2021 from 7.4% in Q2 2021.

Slow recovery in rents and prices to begin 2022

In Q3 2021, rents and prices declined by 0.7% and 1.0% QOQ respectively as we continue to see disruptions in the secondary market. The ramped-up rollout of the government's vaccination program has eased the level of lockdown in Metro Manila. We see increased consumer optimism with looser restrictions. This should encourage more companies to allow employees to work on-site and partly buoy demand for condominiums for lease.

In our view, demand in both the pre-selling and secondary markets is likely to pick up on the back of an economic rebound, increase in vaccinations, and further easing of mobility restrictions across the country. This confidence should also result in improved office space absorption in Metro Manila by the latter half of 2022 which should signal the gradual recovery of condominium rents and prices during the period.

Source: Colliers

[1] Cash remittances up for 7th straight month in August
[2] BSP lowers balance of payment projections

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