Quarterly | Manila | 09 February 2022

Cautious optimism

Improving business and consumer confidence to spillover to the residential market

Insights & recommendations

The spread of the Omicron variant has delayed the much-anticipated recovery of the residential market. The demand in the pre-selling market remains anemic while the slow return of foreign professionals to the country has kept the demand for residential leasing muted. Colliers sees opportunities post-Omicron and we encourage residential developers to:

- Continue lining up projects, both condominium and house & lots, in line with the anticipated recovery of the economy and as more professionals return to traditional offices located in central business districts.
- Implement gradual and cautious reopening of showrooms.
- Monitor the return of demand for co-living facilities as Metro Manila traffic reverts to pre-pandemic levels and employers encourage workers to report on-site.

		Q4 2021	Full Year 2022	2022–26 Annual Avg
Demand	Take-up for units in the secondary market remains lackluster due to the absence of demand from POGOs[†] and slower take-up from expatriates and local professionals.	▼ 745 units	▲ 3,650 units	▲ 6,190 units
Supply	Colliers recorded the completion of 8,731 units in 2021, up 159% YOY. The Bay Area is likely to dominate supply from 2022 to 2026, covering almost half of new supply.	▲ 2,351 units	▲ 10,460 units	▲ 6,463 units
		QOQ/ End Q4	YOY/ End 2022	Annual Avg Growth 2021–26/ End 2026
Rent	Rents across the secondary market declined in Q4 2021 as demand from expatriates and local professionals remains subdued. We expect a slight rental rebound in H2 2022.	-0.7% ▼ PHP677	+1.7% ▲ PHP689	+2.3% ▲ PHP756
Vacancy	Vacancy will likely decline in 2022 as local employees' return to offices should support leasing recovery. A gradual return of expatriates should also aid the rebound.	+0.3pp ▲ 17.9%	-1.7pp ▼ 16.2%	-2.2pp ▼ 15.9%
Capital Values/Yields	We saw a further drop in prices due to tepid demand. Colliers expects a slow recovery starting 2022 partly fueled by an economic and office leasing recovery.	0.1% ▲ PHP188,350	1.5% ▲ PHP191,190	+2.2pp ▲ PHP208,700

Source: Colliers

Note: USD1 to PHP50 as of the end of Q4 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. [†]POGO = Philippine Offshore Gaming Operators.

> “The Philippine economy is bound for rebound in 2022. We see the economic expansion supporting demand in the residential sector, whether in the pre-selling or secondary markets. While we saw initial headwinds at the start of the year, especially the spread of the Omicron variant, the gradual return of foreign professionals and turnaround in business and consumer confidence should help fuel the take-up of more residential units. We also see rents and prices recovering in the next 12 months. These indicators bode well for the residential market.”
>
> **Joey Roi Bondoc**
> Associate Director, Research

Recommendations

Gradual reopening of showrooms

Colliers saw developers shifting to virtual showrooms during the pandemic due to mobility restrictions. We believe that the gradual easing of restrictions should allow more developers to reopen their physical showrooms to interested investors. In our opinion, physical showrooms play a significant role in capturing potential buyers’ attention by letting them physically inspect the appearance of their completed unit. Colliers believes that developers should remain cautious given the spread of the Omicron variant and continue offering virtual showroom options for interested buyers who are not comfortable with physical meet-ups.

Sustainable promos and payment schemes

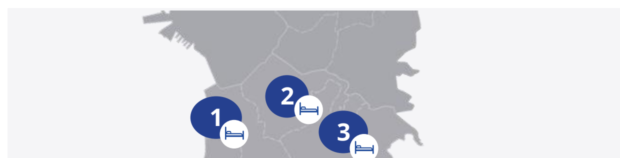
Since 2020, several developers offered innovative discounts and promos to potential buyers to lift demand in the pre-selling market. However, we have observed that while some of these packages were able to lure potential buyers to reserve a unit, some investors eventually backed out resulting in an anemic demand in the pre-selling market in 2021. Colliers encourages developers to offer more sustainable promos to help investors complete their investments.

Assess demand for co-living

In our view, co-living will be a popular option among employers and their workers in Metro Manila beyond 2022 especially with the return of on-site operations and Metro Manila’s traffic reverting to pre-pandemic levels.

Colliers recommends co-living operators to upgrade their services to lure more tenants to their facilities such as free housekeeping and laundry services, and stable Internet connection. Selected operators also bundle flexible workspaces with a free stay in a co-living facility.

Co-living upcoming supply, 2022 onwards



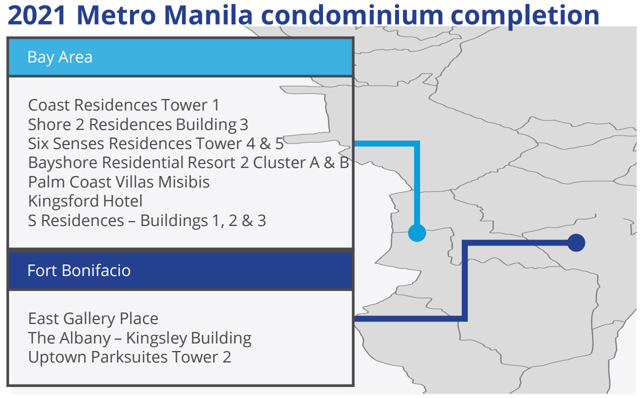
	Location	Units	Share to total (%)
1	Bay Area	3,000	51%
2	Makati CBD	2,600	44%
3	Fort Bonifacio	290	5%
	Total	**5,890**	**100%**

Source: Colliers

2021 supply up 159% YOY

Colliers recorded the completion of 8,731 units in 2021, up 159% from the 3,370 units completed in 2020. All of the new supply in 2021 came from Bay Area and Fort Bonifacio, with 86% coming from the former. Colliers expects the delivery of 6,500 units per annum from 2022 to 2026.

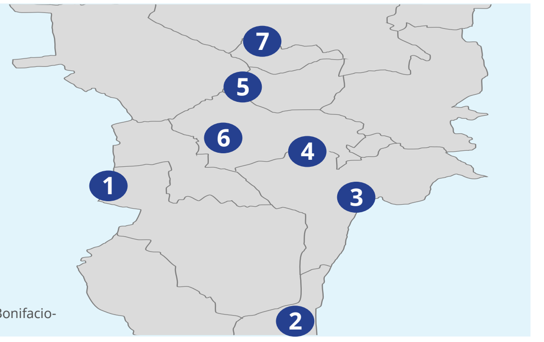
2021 Metro Manila condominium completion



Source: Colliers

Metro Manila residential stock forecast, end of 2021 and 2024 (units)

	End of 2021	End of 2024	% Change
1 Bay Area	30,260	43,970	45.3%
2 Alabang	4,880	6,370	30.5%
3 Fort Bonifacio	40,320	43,370	7.6%
4 Rockwell Center	5,270	5,830	10.6%
5 Ortigas Center	18,730	22,160	18.3%
6 Makati CBD	28,550	29,680	4.0%
7 Araneta Center	4,550	5,140	13.0%
Others	9,630	9,630	0.0%
Total	**142,190**	**166,140**	**16.8%**



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

We see the Bay Area continuing to dominate the residential market with the submarket accounting for 47%, or almost half of new supply during the period.

Gradual recovery in vacancy

Vacancy in the Metro Manila secondary residential market reached 17.9% in Q4 2021 from 17.6% a quarter ago. We expect vacancy to recede to 16.2% by the end of 2022, backed by the government-projected 7% to 9% economic recovery, rebound in office leasing and the return of expatriates to the Philippines with the easing of travel restrictions. In our view, local professionals' return to traditional offices should also raise demand for units in major business hubs and this should partly help improve vacancy. However, a key concern is the spread of the omicron variant which held back employers' plans of encouraging their workers to report on site.

Colliers sees optimism supported by improvement in consumer and business confidence. Data from the Bangko Sentral ng Pilipinas (BSP) or the central bank's Q4 2021 Consumer Expectation Survey show that the percentage of households planning to buy properties within the next 12 months improved to 4.2% from 3.6% a year ago. Meanwhile, the central bank's Q4 2021 Business Expectation Survey showed that the overall business expectations outlook increased to 43.7% from −7.9% in Q3 2021. The central bank forecasts business outlook to continue improving to 68.6% in the next 12 months.

In our opinion, Overseas Filipino Workers (OFW) remittances will continue to be one of the primary residential demand drivers in the country. Data from the central bank show that cash remittances reached USD28.8 billion (PHP1.5 trillion) from January to November 2021[1], up 5.2% YOY. Residential demand should also be supported by low interest rates which should keep mortgage rates attractive to investors. The central bank's benchmark interest rate remains at a record-low of 2.0%[2] to support economic recovery as the emergence of new Covid variants threatens the country's projected growth forecasts.

Developers should also look at the viability of launching more horizontal projects in key provinces such as Pampanga, Bulacan, Tarlac, Cavite, Laguna and Batangas. Despite Covid, we have observed a sustained take-up of horizontal units in these locations.

Rents and prices to pick up

At the end of 2021, rents and prices in the secondary market declined by 4.6% and 6.5%, respectively. In 2022, Colliers expects rents and prices to increase by 1.7% and 1.5%, respectively as take-up recovers. Data from the BSP's latest Residential Real Estate Price Index (RREPI) report show that nationwide house prices increased by 6.3% YOY in Q3 2021 due to stronger consumer demand for residential property.

We believe that recovery in the leasing market will partly hinge on the government's successful inoculation program which should urge more employers to welcome more of their employees on-site by 2022. Based on our Q3 2021 Survey Report, about 31% are already expecting 100% of their employees to work on-site. This improvement in office space utilization should push up prices and rents back to their pre-Covid levels.

[1]Remittances rise for 10th straight month; [2]BSP keeps interest rates at record low

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