



Flash | Manila | 15 February 2022

Primed for turnaround: Property on rally as economy reverts to recovery

Insights & recommendations

The Philippine economy expanded by 5.6% in 2021, a turnaround from a 9.6% contraction in 2020. Among the main contributors to the economic rebound were manufacturing and construction, including infrastructure implementation. The easing of mobility restrictions prior to the Omicron wave partly helped propel consumer spending. This positively influenced the household spending-driven Philippine economy. In our view, the improving business and consumer sentiment should also buoy the property market, especially the office and residential segments. Developers should remain strategic with their landbanking initiatives as they intend to capture pent up demand for offices, residential units, retail spaces, and industrial parks and facilities beyond 2022. Stakeholders should maximize the delivery of infrastructure projects over the next 12 to 24 months.

Faster-than-expected growth

The country's economy grew by 5.6% in 2021, a significant improvement from the 9.6% contraction in 2020. Despite the arrival of the Omicron variant, the government projects the economy to grow between 7% to 9% in 2022. According to some analysts, among the factors that will help the Philippine economy expand in the next 12 months are the following:¹

- The amendments to the Public Services Act which should attract more foreign investments;
- Increased infrastructure expenditures and growth in OFW remittances; and
- Decline in new Covid cases and improved vaccination rates.

Colliers believes that the government-forecasted growth in 2022 should support the property development sector's rebound over the next 12 months.

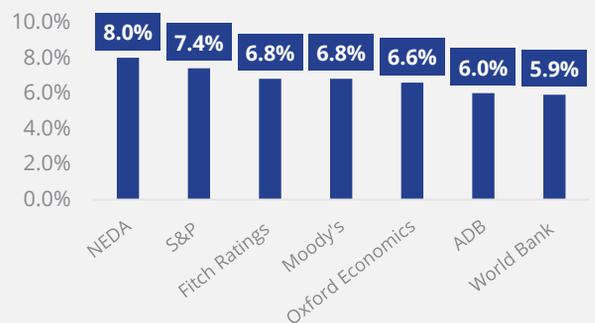
Note: 1 sq m = 10.76 sq ft. USD1 = PHP50 as of the end of 2021.

¹[Department of Foreign Affairs Joint Statement on the country's economic performance in 2021.](#)

Remittances up

In 11M 2021, Overseas Filipino Worker (OFW) remittances reached USD31.6 billion (PHP1.6 trillion), this is up 5.3% from the USD30 billion (PHP1.5 trillion) recorded in the same period in 2020. In 2022, the central bank sees remittances growing by 4%. Colliers believes that the growth in remittances should partly buoy take-up for vertical and horizontal units within and outside Metro Manila and support retail spending.

2022 Philippine GDP growth forecasts



Source: Various news articles

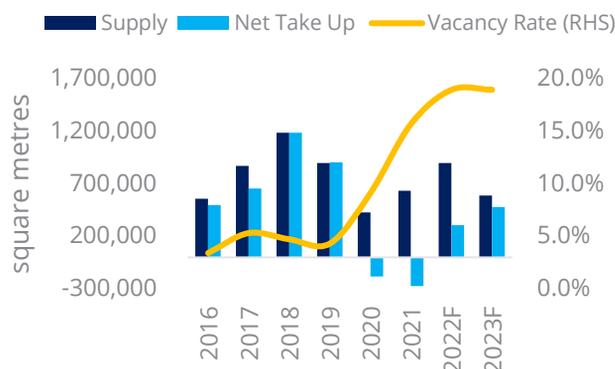
Office: Tenants firm up back to office strategies

Colliers saw office deals in 2021 reaching 422,400 sq metres (4.5 million sq feet), up 18% from 357,400 sq metres (3.8 million sq feet) in 2020. Traditional* occupiers continue to lead office space absorption followed by outsourcing firms. Most of these companies took up spaces in Ortigas CBD, Makati CBD and Fort Bonifacio.

Several tenants are already firming up their back to office plans and these should sustain take-up over the next 12 months.

In 2022, we expect traditional and outsourcing occupiers to lead absorption in the capital region. Outside Metro Manila, we project a sustained demand in Cebu, Pampanga and Iloilo.

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



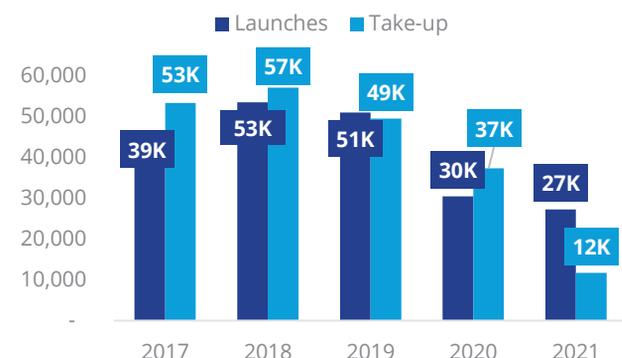
Source: Colliers

Residential: Shift to horizontal

Colliers recorded the completion of 8,731 units in 2021, up 159% from the 3,370 units delivered in 2020. The new units are located in the Bay Area and Fort Bonifacio. Colliers expects the delivery of 6,500 units per annum from 2022 to 2026, with Bay Area likely accounting for 47% of new supply during the period.

Condominium pre-selling in Metro Manila declined substantially in 2021 (see graph below).

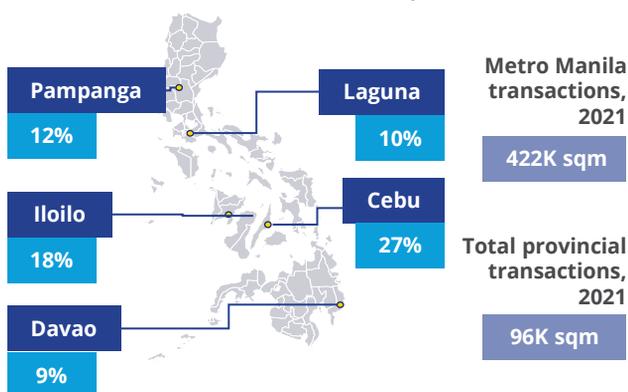
Metro Manila historical pre-selling launches and take-up, 2017 – 2021



Source: Colliers

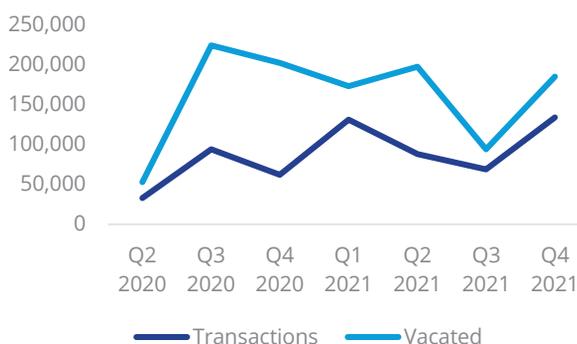
On a positive note, Colliers saw a sustained take-up for house & lot and lot only projects in areas outside the capital region in 2021. Among the popular locations were key urban areas in northern and southern Luzon including Pampanga, Tarlac, Bulacan, Cavite, Laguna, and Batangas where residential projects are between 86% to 97% sold as of the end-2021. Colliers believes that a steady inflow of remittances from Filipinos working abroad should help sustain take-up for these horizontal projects beyond 2022.

Provincial share of office deals, 2021



Source: Colliers

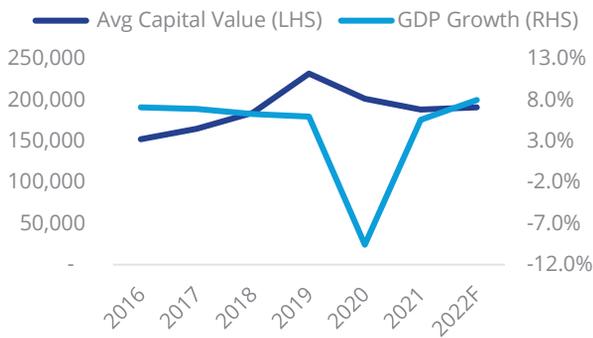
Office transactions and vacated spaces in Metro Manila (in sqm), Q2 2020 – Q4 2021



Source: Colliers

*Traditional (includes companies in various sectors such as legal, engineering and construction, government agencies and flexible workspace operators).

Annual property price increase vs. GDP growth

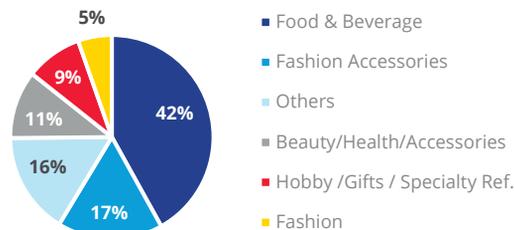


Source: Colliers

Retail to rebound

From 2022 to 2024, we project the annual completion of about 357,900 sq metres (3.9 million sq feet) of new leasable space as we see some developers anticipating a rebound in retail demand beyond 2022. Among the malls likely to be completed over the next three years are Mitsukoshi Mall, Ayala Triangle Retail, Greenhills Center Expansion and Parqal Mall.

Upcoming retailers across malls in Metro Manila, by category



Source: Colliers

Data from the PSA* show that household spending grew by 4.2% in 2021 after a 7.9% contraction in 2020. In our view, the easing of mobility restrictions and accelerated inoculation program should inject a much-needed boost to the retail sector. The Health department has

Retail supply and vacancy forecasts, 2011 to 2022, in sqm



Source: Colliers. *Philippine Statistics Authority

announced that the Philippines is now back to low-risk status for COVID-19. Colliers believes that this is a positive development for mall operators, retailers, and consumers.

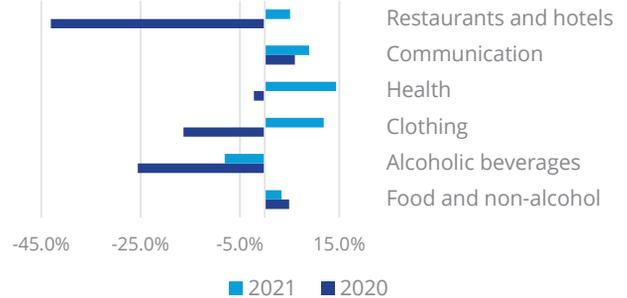
Retail rents vs. Consumer confidence, 2009 to 2023



Source: Colliers; Bangko Sentral ng Pilipinas

Retail rents are likely to rise by 1% starting 2022 on the back of an improving economy and sustained purchasing power of consumers. This should partly improve retail space take-up.

Consumer spending per sub-segment growth, 2020 vs. 2021



Source: Philippine Statistics Authority

Property post-COVID 19

In our view, office landlords and residential developers should remain agile and be mindful of the economy's recovery prospects beyond Covid. Developers should be more strategic with their landbanking initiatives if they are to capture pent-up demand.

What stakeholders should watch out for:

-  Rising interest rates
-  Implementation and direction of infrastructure development
-  Decentralization beyond Metro Manila
-  Approval and implementation of policies improving the business climate

Source: Colliers

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