Philippine Annual Property Market Report

Institute for Philippine Real Estate Appraisers

I. Country Background

The Republic of the Philippines is a sovereign archipelagic state in Southeast Asia. It has 7,641 islands spanning more than 300,000 square kilometers of territory. The country is divided into three island groups: Luzon, Visayas, and Mindanao.

The Philippines stretches about 1,850 kilometers from Y'Ami Island in the north to Sibutu Island in the south and is about 1,000 kilometers at its widest point east to west. The bulk of the population lives on 11 of the 7,107 islands.

The Philippines has no land boundaries. Nearby neighbors include Taiwan to the north, Malaysia and Indonesia to the south, Vietnam to the west, and China to the northwest.

Its location on the Pacific Ring of Fire and close to the equator makes the Philippines prone to earthquakes and typhoons, but also endows it with abundant natural resources and some of the world's greatest biodiversity. At approximately 300,000 square kilometers (115,831 square meteri), the Philippines is the 73rd-largest country in the world.

With a population more than 100 million people, the Philippines is the seventh-most populated country in Asia and the 12th most populated country in the world.

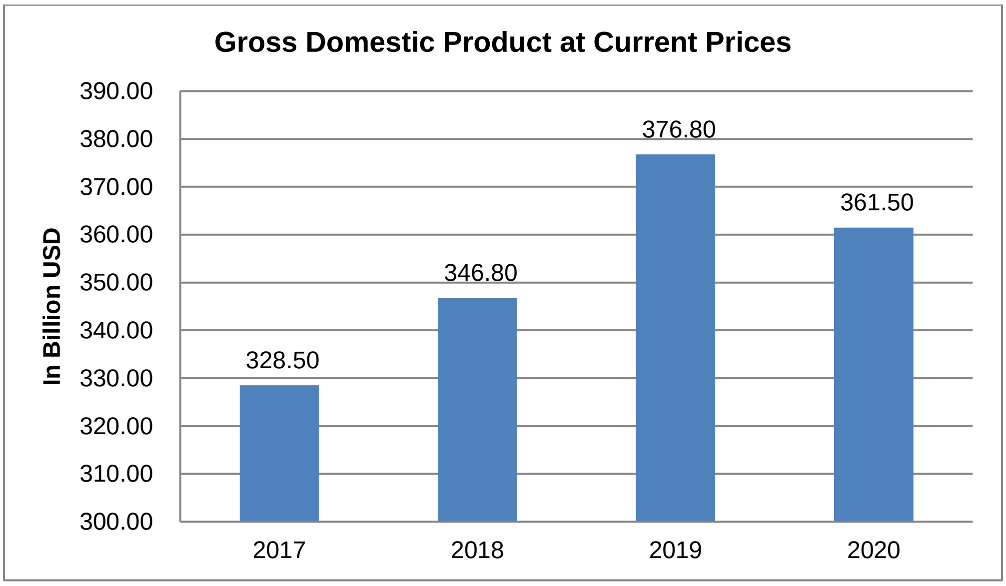
II. Economic Background

Gross Domestic Product

There was a decrease in the Philippines' Gross Domestic Product (GDP) in the year 2020 by -8.1%, from 2019's increase of 6.9%. The decline was brought about by the Covid-19 Pandemic we are experiencing.

Among the three major industrial origins, industry (manufacturing and construction) experienced the most decline with -13.2% annual change – compared to 2019's 5.5%. Services also decelerated at -9.2% from the previous year's 7.2%. Agriculture, Forestry, and Fishing underwent the least change with an annual change of -0.2%, but the 2019 growth percent was only 1.2%.

Figure 1

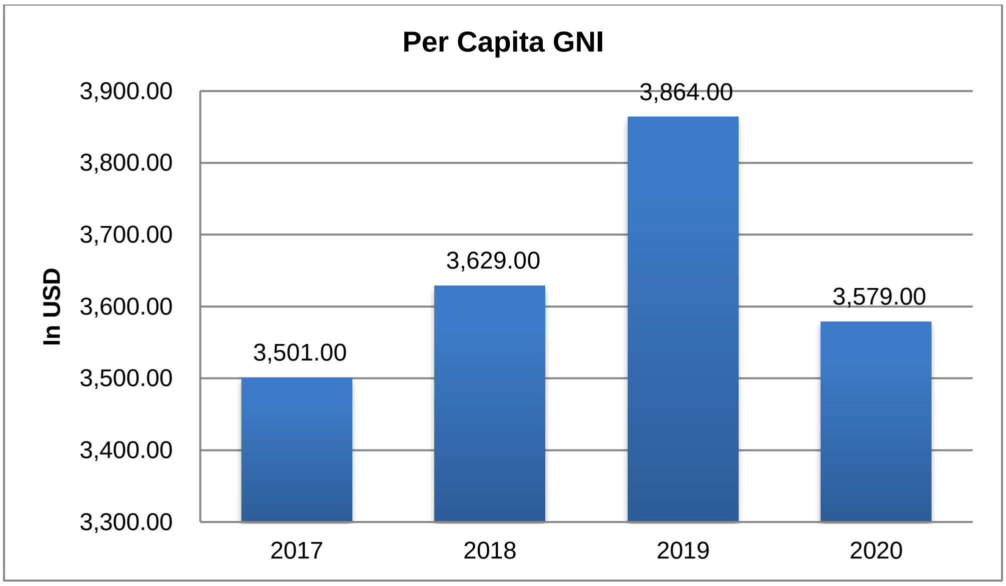


Source: Bangko Sentral ng Pilipinas (BSP)

Per Capita Income

Philippines' per capita Gross National Income (GNI) also declined by -12.6% from the previous year's 3.9% annual change. Meanwhile per capita GDP decreased by -10.8% from 2019's 4.6% annual change.

Figure 2



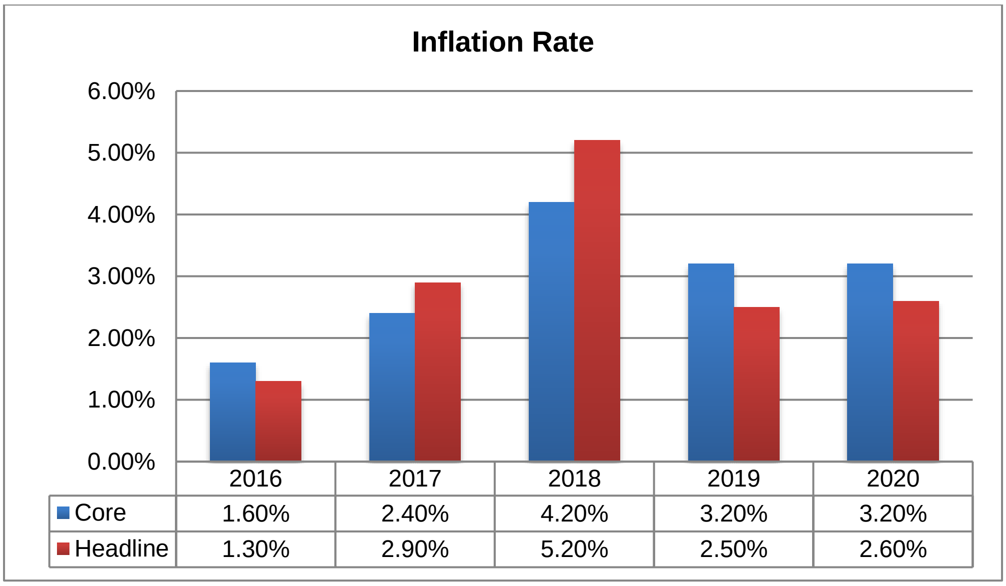
Source: Bangko Sentral ng Pilipinas (BSP)

Inflation Rate

The 2020 year-on-year headline inflation for the Philippines is at 2.6%. There was a slight increase from 2019's 2.5%. The largest contributor to this trend are alcoholic beverages and tobacco index, while food and non-alcoholic beverages only coming in second.

Excluding selected food and energy items, core inflation remains the same in both 2020 and 2019.

Figure 3



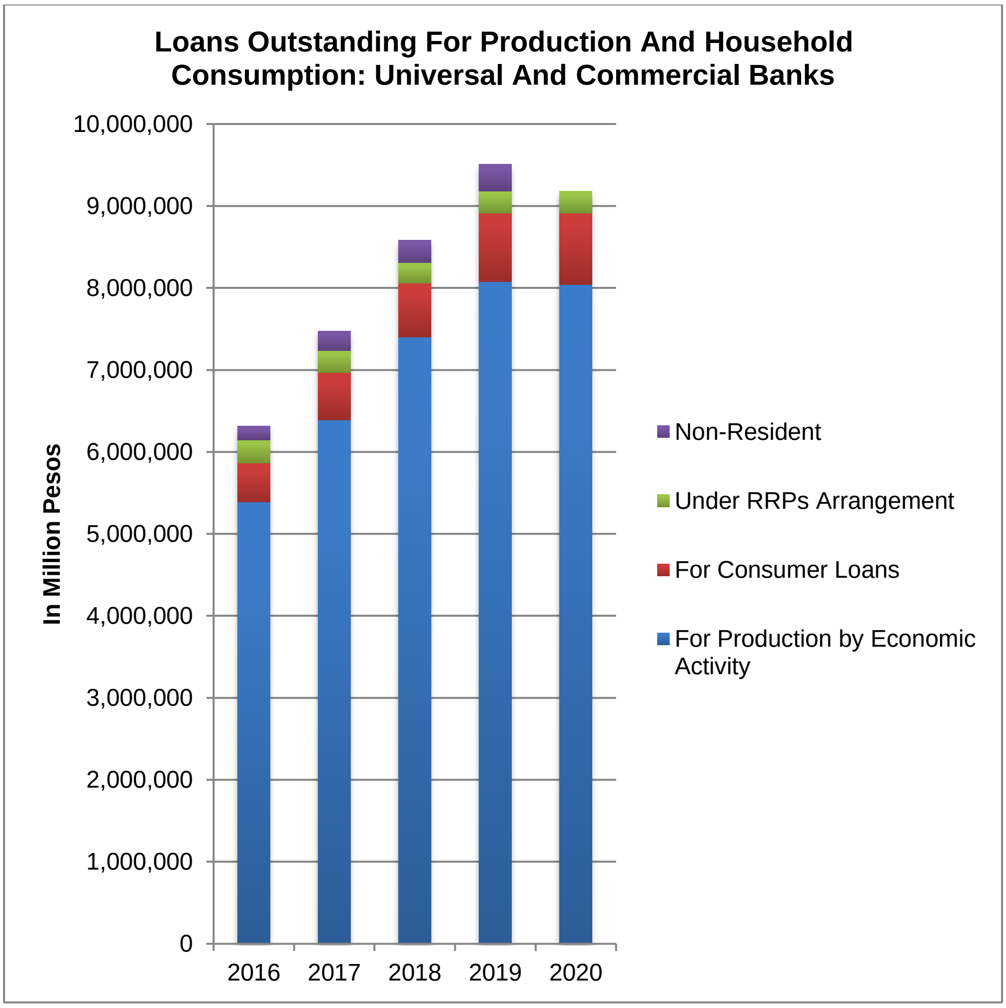
Source: Bangko Sentral ng Pilipinas (BSP)

Loan Approval by Sector/Purpose

As of December 2020, there was a 9,442,155 million pesos' worth of outstanding loans for private capital expenditures from commercial banks and universal banks, less than 2019's 9,508,752 million pesos.

Meanwhile, **Error! Reference source not found.**4 breaks down the loans outstanding for production and household consumption for the past 5 years.

Figure 4



Source: Bangko Sentral ng Pilipinas (BSP)

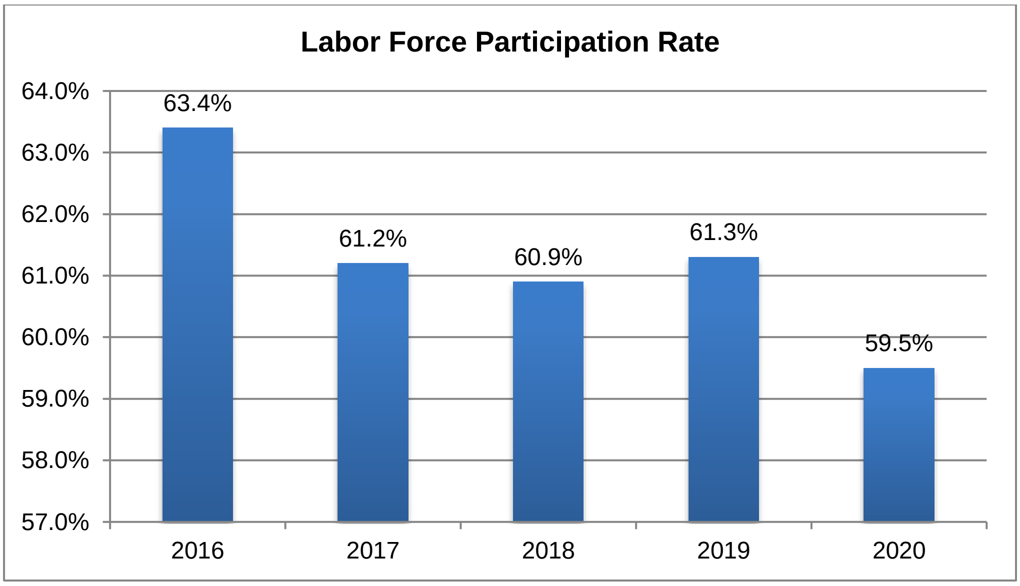
Labor Force

The labor force population consists of the employed and the unemployed 15 years old and over. The employment rate in the last quarter of 2020 was at 59.5%.

Among the three major industry groups – agriculture, industry, and services – the services group has the largest proportion of the employed population with 56.9%. Specifically, the wholesale and retail trade – with 20.5% of the services group.

Agriculture sector comes in second with 24.8% while industry comprises 18.3% of the employed population.

Figure 5

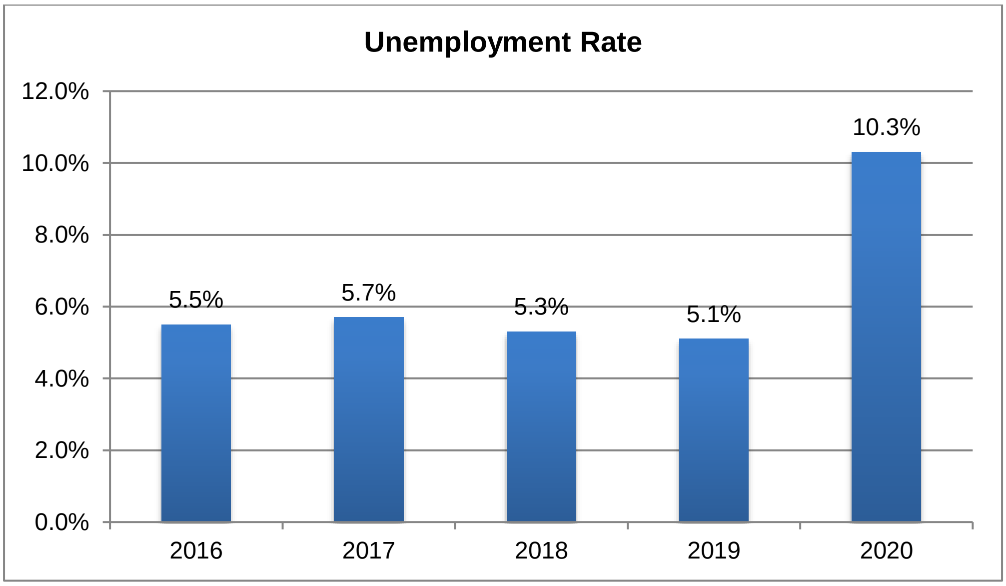


Source: PSA

Unemployment Rate

The Philippines' unemployment rate soared to 10.3% from the previous year's 5.1%. This is largely attributed to the Covid-19 Pandemic, which caused employers to close down businesses due to lockdown restrictions imposed by the government.

Figure 6



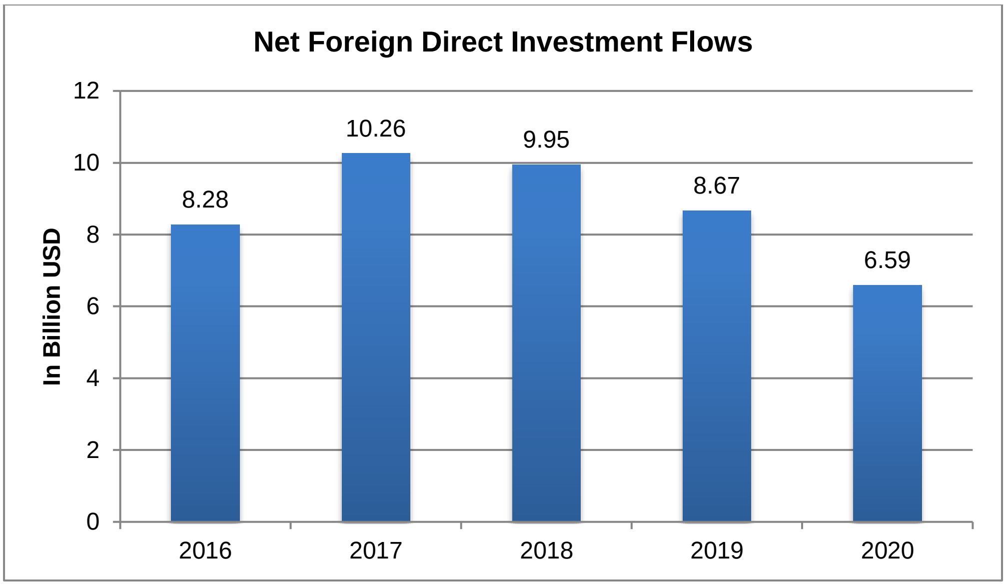
Source: PSA

Foreign Direct Investment

Latest data from the Bangko Sentral ng Pilipinas, or BSP, showed $6.59 billion of FDIs flowing into the country in the year 2020.

Equity infusions emanated largely from the Japan, Hong Kong, the ASEAN countries, Singapore and were invested mainly into manufacturing; while some were invested in real estate activities, and information and communication.

Figure 7



Source: Bangko Sentral ng Pilipinas (BSP)

III. Property Market Overview

In 2020, most countries experienced a massive economic slowdown thanks to the COVID-19 pandemic. The Philippines itself was no exception as numerous industries were forced to reevaluate their business models and many businesses were forced to permanently close.

The property market demonstrated weak demand as most normal office workers either worked from home or experienced layoffs from their jobs. This resulted in record high Metro Manila vacancy rates since the 2008 Financial Crisis and a negative take up rate for the year. Moreover, a massive exit from

Philippine offshore gaming operators (POGOs) during the year also further contributed to these occupancy problems.

As a partial solution, landlords lowered rental rates and made building improvements to retain existing lessees and attract new occupants.

Quarantine restrictions also delayed many construction projects in all property sectors as workers encountered mobility issues due to limited transportation options. Some of these projects are in areas such as Alabang, Fort Bonifacio, and the Bay Area. These development plans are now expected to be completed within the next three years.

With that, retail developers began exploring online platforms to mitigate their losses. In addition, with the lockdown restriction levels lowering, employees coming back to offices and consistently increasing foot traffic in retail establishments have put the property market in the path of possible recovery in the next quarters.

Residential Property Market

Pre-selling take-up reached record lows in Q4 2020 with -2,612 units, which is a significant decline from the previous quarter. Meanwhile, total take-up for the year 2020 is 6,977 units. This slowdown is due to the negative effects of COVID-19 as well as the lower demand from both expatriates and local professionals and the absence of POGOs.

Capital values for Metro Manila residential properties decreased by 6.6 percent to PHP201,500 (USD4,197.92) per square meter from PHP215,800 (USD4,495.83) per square meter in the previous quarter.

Table 1

Residential Condominium Comparative Luxury 3BR Capital Values (USD/sq. m.)					
LOCATION	**Q3 2020**	**Q4 2020**	**% CHANGE (QoQ)**	**Q4 2021F**	**% CHANGE (YoY)**
Metro Manila CBDs	4,495.83	4,197.92	-6.6%	4,211.50	0.4%
Source: Colliers International Philippines Research					

Rental rates for premium three-bedroom units in Metro Manila CBDs declined by 4.5 percent to PHP710 (USD14.79) per square meter a month from PHP744 (USD15.50) per square meter in the previous quarter. The rental rate drop was slower than the 3.4 percent decline recorded in Q2 2021.

Table 2

Residential Condominium Comparative Luxury 3BR Rental Rates (USD/sq. m./month)					
LOCATION	Q3 2020	Q4 2020	% CHANGE (QoQ)	Q4 2021F	% CHANGE (YoY)
Metro Manila CBDs	15.50	14.79	-4.5%	14.88	0.5%
Source: Colliers International Philippines Research					

Key completions in 2020 include Studio City Tower 5 in Alabang, Six Senses Resort I-Touch Tower in the Bay Area, and Dusit D2 Residences in Fort Bonifacio. Other significant projects include The Florence at Mckinley Hill Tower 3, Garden Towers Tower 2, and Eastwood Global Plaza Luxury Residence.

Commercial Property Market

Office

Demand for office space in Metro Manila significantly declined in Q4 2020 with office transactions reaching -70,700 sq m (-761,008 sq ft) in comparison with the 294,400 sq m (3.17 million sq ft) from the previous year. Additionally, 2020 net take-up went down to negative levels at -183,100 sq m (-1.9 million sq ft).

Demand was driven by traditional companies such as e-commerce, fintech, telecom, healthcare, and logistics. These companies make up 196,000 sq m (2.1 million sq feet) of office transactions across Metro Manila, which is a 62% decrease from 2019. Meanwhile, POGOs are down by 91% to 48,000 sqm (516,668 sq ft) in 2020 from 554,000 sqm (5.8 million sq ft) in the previous year. Most industries have also reevaluated their operational efficiencies and this led to a paradigm shift from traditional office spaces to work-from-home or hub-and-spoke models. As a result, vacancy rates continue to rise—even hitting almost 10% of total grade A office stock by the end of 2020.

Rents in Metro Manila CBDs are also affected by high vacancy rates with a decline of 1.5 percent quarter on quarter to PHP1,140 per sqm per month. As a result, lessors have resorted to lowering rates to attract more occupants.

Table 3

GRADE A OFFICE						
Q2 2021	**Makati CBD**	**BGC**	**Ortigas Center**	**Alabang**	**Quezon City**	**Bay Area**
Average net rental rate (USD/sq m)	2.20	1.99	1.33	1.33	1.45	1.67
Upper net rental rate (USD/sq m)	3.08	2.69	1.73	1.40	1.59	1.83
Vacancy Rate	5.0%	5.2%	17.3%	13.7%	15.7%	7.2%
Current stock (sq. m.)	1,191,611	1,865,399	759,357	545,299	739,051	872,157
Development Pipeline '21 – '24 (sq. m.)	224,358	369,338	457,857	96,089	106,952	350,854
Source: KMC Saville Research						

In 2020, new supply in Metro Manila was lower than expected. Only 425,500 sq m (4.6 million sq ft) of new office supply was completed due to several building completions delayed to later quarters as the pandemic impeded construction schedules.

Retail

Similar with other sectors, many construction projects were delayed in 2020 due to high quarantine restrictions and overall concern regarding the COVID-19 pandemic. As a result, no shopping mall was completed during the year. Consumers were also encouraged to buy more from online shops, further driving down foot traffic in physical stores. Furthermore, the retail sector's struggles can be attributed to the slow inflow of remittances from OFW (overseas Filipino workers), bonus cuts, increasing unemployment rate, and negative consumer sentiment.

Philippine real estate developers have opted to continue and complete their mall projects from 2021 to 2023.

Table 4

Retail Space Lease Rate		
Makati	PhP/sqm/mo	US$/sqm/m0
High	1,700	35.42
Low	1,400	29.17
Bonifacio Global City		
High	2,500	52.08
Low	1,500	31.25
Ortigas		
High	1,600	33.33
Low	850	17.71
Alabang		
High	1,400	29.17
Low	850	17.71
Non-CBD		
High	1,200	25.00
Low	850	17.71

Source: IPREA Consensus Values

With the schedules pushed back, major developers have become more aggressive on their online shopping strategies and services to cut losses brought about by weak demand. Some examples are Ayala Land's DeliverEasy and Ayala Malls Neighborhood Assistant (ANA), Megaworld's Pick.A.Roo, Robinsons' Ring Rob, and SM's Get and Go.

As lockdowns loosen, construction will commence once again. Some of the most awaited developments include Mitsukoshi Mall in Taguig, which aims to bring the Japanese experience in BGC; SM City Grand Central in Caloocan; Gateway Malls 2 in Quezon City, One Ayala Retail in Makati; Parqal Mall, which is set to become an integrated mixed-use development project in Aseana City; Greenhills Center in San Juan; and the expansion of SM Mall of Asia in Pasay.

The retail environment remains one of the most affected by the ongoing pandemic. Throughout the year, the consumers' attention shifted more to essential goods such as groceries, medicines, and food deliveries and less on non-essential products such as clothes and jewelry, which led to numerous closures of physical shops.

The household final consumption expenditure for 2020 was 12.91 in billion PhP (257.82 in million US$) with a decline of 7.9 percent from last year. Despite this, retail recovery can be seen in 2021 along with an expected increase in household spending.

Hospitality Sector

COVID-19 had a significant impact on the Philippines' hospitality industry. The Philippine tourism industry was worth PHP 2.2 trillion as of October 2019, accounting for more than 12% of the country's GDP. The industry, which includes lodging and transportation, employs approximately 5.4 million people.

Tourist arrivals totaled 1.32 million in the first ten months of 2020, according to data from the Department of Tourism (DOT). This is an 81% decrease from the same period last year. From April to October 2020, the government-imposed travel bans in response to the pandemic, which contributed significantly to the decline in foreign arrivals.

During the lockdown, which began on March 15, 2020, the majority of hotel guests were returning overseas Filipino workers (OFWs), frontline health workers, and professionals working in Metro Manila, whose daily commutes were hampered by the suspension of public transportation in the capital region.

As a result, hotel occupancy rates in Metro Manila have decreased significantly as a result of lower foreign arrivals and government lockdowns. Metro Manila's average hotel occupancy rate fell to 23.3 percent in 2020 from 71.8 percent in 2019. However, hotels in Metro Manila gradually regained their footing in the last quarter of 2020, with average occupancy and room rates gradually increasing due to lockdown easements.

In the fourth quarter of 2020, the average room rate in Metro Manila was PHP 6,690 per night, up 26% from the previous quarter. It is primarily fueled by the reopening of luxury hotels catering to staycation guests in the Bay City Reclamation Area, Taguig City, and Mandaluyong City. This is still 13% lower than in 2019, as the market continues to struggle to stabilize room rates as a result of difficulties maintaining occupancy.

Existing supply was 40,200 rooms as of the fourth quarter, with completions only recorded in the first quarter due to quarantine measures still in place. The majority of 2020 completions have been pushed back to 2021, resulting in an expected peak of supply assuming lockdowns gradually ease up over the next 12 months.

Industrial Sector

The Philippine Economic Zone Authority (PEZA) reported that investment approvals totaled PHP95.03 billion in 2020, a decrease of 18% from the PHP117.5 billion approved in 2019. Manufacturing investment commitments totaled PHP34.44 billion, a 13.4 percent increase from PHP30.34 billion in 2019, while IT-BPO investment commitments decreased by less than 1 percent to PHP17.41 billion from PHP17.58 billion in 2019.

Despite the decline in committed investments, several indicators suggest that the industrial sector remains optimistic. Manufacturing, transportation, and storage accounted for 67% of all investments approved by the Philippine Board of Investments (BOI). This represents a significant increase over the previous year's 16.9 percent figure.

Electronic-related locators increased their market share to 33.3 percent in the second half of 2020, up from 9.0 percent in the first half. It outperformed Real Estate Activities and Electrical Equipment, which accounted for 13.3% and 10%, respectively. Meanwhile, third-party logistics (3PLs) continued to be the primary driver of demand for logistics space, owing to the completion of mega distribution hubs that support the booming online retail presence.

Despite the period's low take-up, the average Greater Manila Area selling price increased by 6.1 percent to PHP 6,000 per sqm in the second half of 2020. Monthly rent for existing logistics space in the Greater Manila Area averaged

PHP 340 per sqm in the same period, up 1.4 percent from the previous semester, owing to the area's growing online retail presence and mobility, which increased overall demand for logistics space.

For years, the CALABA corridor has served as the country's primary industrial hub, with Batangas dominating industrial land supply with a 30.6 percent share. In the next two years, the province is expected to maintain its position, increasing its share to 59.2 percent. But due to the presence of new infrastructure developments enhancing its connectivity to Metro Manila, major developers are beginning to expand towards Central Luzon. However, due to the lockdowns, no new developments have been recorded. Five industrial parks that were supposed to be finished this year have been pushed back to 2021-2022.

CALABA	H1 2020			H2 2020		
	Cavite	Laguna	Batangas	Cavite	Laguna	Batangas
Industrial Land Supply Stock (hectares)	1,092	1,092	1,302	1,341	1,331	1,561
Average Land Selling Prices (PhP/sq.m.)	6,500	7,350	6,100	6,450	7,400	6,950
Logistics Supply Stock (sq. m.)	65,600	718,400	35,200	70,000	616,000	28,000
Average Logistics Building Lease Rates (PhP/sq.m./mo.)	235	380	225	230	400	218
Source: Jones Lang LaSalle						

Central Luzon	H1 2020		H2 2020	
	Pampanga	Tarlac	Pampanga	Tarlac
Industrial Land Supply Stock (hectares)	336	336	398	393
Average Land Selling Prices (PhP/sq.m.)	4,500	4,750	6,800	3,300
Logistics Supply Stock (sq. m.)	100,800	64,000	84,000	70,000
Average Logistics Building Lease	315	330	288	300

Central Luzon	H1 2020		H2 2020	
	Pampanga	Tarlac	Pampanga	Tarlac
Rates (PhP/sq.m./mo.)				
Source: Jones Lang LaSalle				

In contrast, the Greater Manila Area saw significant annual logistics space completions in 2020, adding 255,600 square meters to the total existing stock. Outside of Metro Manila, logistics facilities continue to be concentrated, accounting for 69.8 percent of total existing supply. Laguna is expected to house the majority of new logistics space over the next three years, accounting for 61.5 percent of the total pipeline.

IV. Upcoming and Ongoing Mega Development / Infrastructure Projects

Pandemic restrictions hampered infrastructure rollout in 2020, and spending fell to P869.5 billion, or 4.8 percent of GDP. The Investment Coordination Committee (ICC) of the National Economic and Development Authority (NEDA) approved 20 projects. Foreign loans or official development assistance were used to fund 19 of the 20 approved projects. One was paid for with budget funds.

Some of the big-ticket projects approved in 2020 are the following:

- P189.53-billion Panay-Guimaras-Negros Island Bridges Project
- P175.66-billion Bataan-Cavite Interlink Bridge (BCIB) Project
- P81.69-billion Beneficiary FIRST! (Fast, Innovative, and Responsive Service Transformation) or Covid-19 Emergency Social Protection Project (ESPP)
- P76.4-billion Cebu-Mactan Bridge (4th Bridge) and Coastal Road Construction Project
- P57.07 billion Mass Rapid Transit (MRT) 4 Project.

In 2021, NEDA ICC-CabCom will review 17 more infrastructure and other development projects worth P394.96 billion, while the NEDA-ICC technical board will review 26 projects worth P1.387 trillion.

V. Property Market Outlook

As a result of the COVID-19 crisis, fewer tourists visited the Philippines, and remittances from OFWs fell, as did unemployment and consumer confidence. Despite the pandemic's impact, the real estate industry may thrive in these trying times.

Several office buildings allow single-office rentals for up to multiple occupants at a lower cost than full-building rentals. Colliers predicts a 10% increase in flexible workspace area over the next three years. Coworking spaces will appeal to multinational corporations and outsourcing firms looking for flexibility, as well as small businesses and digital nomads. Many developers, including SM and Ayala, are capitalizing on the co-working and co-living demand.

Meanwhile, residential developments outside of CBDs near infrastructure and transportation hubs, as well as those offering low interest and mortgage rates, are expected to be in higher demand.

Local e-commerce markets are sprouting up in the industrial market. Logistics, warehouses, and sorting centers are in high demand. The provinces of Central Luzon and CALABARZON are expected to experience the next wave of growth. These provinces have the potential to become the next logistics hub, resulting in more job opportunities. This will stimulate economic development outside of Metro Manila, assisting the real estate industry to grow.

Finally, following the implementation of the revised rules in January, real estate firms are exploring real estate investment trusts (REITs). REITs have the potential to contribute to the democratization of the Philippine real estate market. This enables small investors to participate in high-value real estate investments alongside large corporations. Properly invested real estate investment trusts can ensure the long-term growth of the Philippine economy and will benefit the real estate industry in the long run. More sectors may be able to expand outside of Metro Manila, resulting in more job opportunities in the provinces.

Overall, the economy is expected to improve by the end of the 2021 as a result of mass vaccinations and optimistic government forecasts.