Report

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7 Trends Shaping Philippine Real Estate in 2020

The beginning of 2020 has been marked by a series of unexpected events that continue to affect the global economy. Despite the impact of COVID-19 and downturn in international stock markets, the Philippine real estate industry continues to have reasons to be optimistic, according to leading real estate service company, Santos Knight Frank. This is due to various drivers, including the roll out of REITs, continuous expansion of BPO companies, and strong consumer demand. (Since 1985, household consumption has accounted for 70-75% of Philippine GDP).

Santos Knight Frank identifies the seven key trends that will be shaping the real estate industry this 2020.

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1. The year for REITs

More property companies have expressed interest in Real Estate Investment Trusts (REITs) after regulators unveiled the revised rules in January. Property giant Ayala Land recently filed its application for its own REIT subsidiary, AREIT, while DoubleDragon Properties Corp is looking at raising PHP 11 billion annually over a six-year period via REITs. Companies such as Megaworld, SM Prime Holdings Inc., Robinsons Land, and Ortigas & Co. have also expressed interests on REITs.

Asia-Pacific REIT markets Australia, Japan, and Singapore have all performed well in 2019, producing higher dividend yields than listed property companies, according to Santos Knight Frank. In addition to the impressive performance of dividend yields in the three markets, REITs in Hong Kong and Japan have delivered higher total returns versus listed property companies during the year.

PERFORMANCE OF REIT AND LISTED PROPERTY COMPANIES IN ASIA PACIFIC IN 2019

REIT & PROPERTY DEVELOPERS' PERFORMANCE		DIVIDEND YIELD (FY 19E)	TOTAL RETURN (12M)
Australia	REIT	4.30%	22%
	Property Company	2.20%	22%
Hong Kong	REIT	3.60%	13%
	Property Company	4.30%	3%
Japan	REIT	3.30%	28%
	Property Company	1.40%	19%
Singapore	REIT	5.20%	26%
	Property Company	2.60%	26%

Notes: REITs in Australia, Japan, and Singapore delivered higher dividend yields in 2019 versus listed property companies. Meanwhile, REITs in Hong Kong and Japan provided higher total returns versus listed property companies.

Source: Thomson Reuters Datastream

Santos Knight Frank believes that REITs will unlock a number of opportunities in the property market, such as greater access to real estate investment and revitalization of capital markets.

“REITs bring about a significant opportunity to democratize the Philippine property market, allowing the small investor to participate in high-value real estate assets alongside major corporate institutions. REITs have the power to sustain long-term growth for the Philippine economy through investments,” says Rick Santos, Chairman & CEO of Santos Knight Frank.

“We anticipate that REITs will drive an increase in acquisition, consolidation, and property development activities across the Philippines in the coming years. New capital raised by the developers through REITs will enable expansion of the real estate sector not only in Metro Manila but also in the provinces, and with it generate jobs across many sectors,” says Kash Salvador, Associate Director for Investment & Capital Markets, Santos Knight Frank.

Salvador adds: “The property market is still cyclical. It is a good time to list properties in REITs and take advantage of these high values that the market is experiencing now.”

2. Healthcare, animation, & game development drive BPO growth

The signing of Administrative Order (AO) 18 placed a moratorium on the issuance of new Philippine Economic Zone Authority (PEZA) accreditation to ecozones in Metro Manila. While Santos Knight Frank believes that BPO companies will still pursue expansion within the capital, the moratorium will likely encourage BPOs to move outside Metro Manila in the long term.

"In 2020, we expect BPO demand to be strong, despite the limited amount of PEZA-accredited office space. BPO demand is strongest in BGC and Pasay, where rents should be going up. Conversely, Ortigas and Quezon City may have more supply than demand, and rents will stay flat in those areas as the vacancy rates increase," says Morgan McGilvray, Senior Director, Occupier Services & Commercial Agency, Santos Knight Frank.

In general, the BPO industry will remain to be a major driver of demand for office space, growing by 3% to 7% annually, according to a joint research by IBPAP and Everest. The fastest growth in terms of employment between 2019 and 2022 are seen in the healthcare BPO (6.8% to 10.2%) and animation and game development (6.8% to 11.7%) sectors.

From 1.23 million direct hires as of 2018, the entire Philippine BPO industry is expected to support up to 1.57 million by 2022. Santos Knight Frank estimates that the growth of 7% CAGR would, in total, require an estimated office space of 1.2 million sqm for the 260,000 new jobs generated.

3. Co-working expands in Manila and beyond

The last few years saw an explosion of co-working brands in the Philippines. International players such as WeWork, SPACES, and Common Ground have established their base alongside local players such as Acceler8 by UnionSpace, Clock In by Ayala Land, and Work.able by Robinsons Land. In addition, a number of co-working space brands are now single-office tenants, such as WeWork which occupies the entire office floors of The Brilliance Center in BGC.

Co-working spaces are also increasing in Metro Cebu. Santos Knight Frank estimates about 3% of the office market are co-working spaces, spread across Cebu IT Park, Cebu Business Park, and selected buildings in the fringes.

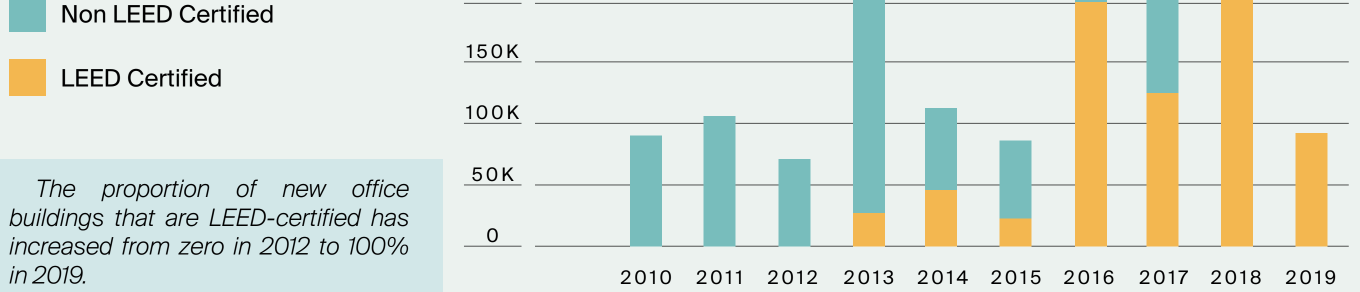
More site launches are expected in the coming years, including IWG, which recently launched a franchise model.

All these are driven by the demand from freelance workers, startup companies and entrepreneurs, and BPO firms urgently needing a plug-and-play setup.

4. A new focus on sustainability

As the real industry becomes increasingly aware of its environmental impact, more property owners are turning to green design, solutions, and systems, such as Leadership in Energy and Environmental Design (LEED), in constructing and operating their buildings.

LEED and non-LEED office launches in BGC (in sqm)



The proportion of new office buildings that are LEED-certified has increased from zero in 2012 to 100% in 2019.

To date, there are more than 300 buildings in the Philippines that are implementing LEED guidelines, with nearly half of the number already certified by LEED. Supply has grown as more tenants add LEED certification to their requirements in selecting office spaces.

In Bonifacio Global City, the proportion of new office buildings that are LEED-certified has increased from 13% of the new stock in 2013 to 100% in 2019, according to a study by Santos Knight Frank.

LEED-certified buildings not only carry environmental benefits, but they also position properties to the premium side. Santos Knight Frank reveals that LEED-certified office buildings in Bonifacio Global City, on average, commanded 12.5% higher lease rates than non-LEED-certified buildings.

5. Industrial & logistics look outside Manila for growth

The Philippines' robust e-commerce market, with its increasing need for warehouses and distribution centers, continues to fuel the industrial and logistics real estate sector.

Santos Knight Frank believes that the next wave of growth in the industrial and logistics real estate sector is in the provincial areas to the north and south of Metro Manila. "The areas of Calabarzon and the corridor NLEX-SCTEX-TPLEX in North Luzon are prime spots for logistics and industrial real estate to grow. These would be the next hubs for distribution centers and warehouses," comments Kash Salvador.

Within Metro Manila, demand for last-mile logistics is a major opportunity. Warehouse operators are also introducing new innovations, such as multi-story warehouses and stacking technology, to maximize the use of real estate.

6. Manila still hot for prime residential

Manila's prime residential market registered one of the highest growth rates globally in 2019, increasing by 6.5% in Knight Frank's Prime International Residential Index. Manila ranks 8th highest globally and 3rd highest in Asia.

The growth in the prime residential market in Manila is driven by a tight supply of luxury and high-end properties, increasing number of Filipino ultra-high net worth individuals (UHNWIs), and demand from foreign buyers.

Eight residential projects were launched in Q4 2019, including the latest prime properties such as Gardencourt Residences by Ayala Land, Parkford Suites Legazpi by Alveo Land, and The Seasons Residences – Natsu Tower, a joint venture of Federal Land and Japanese-based Nomura Real Estate Development and Isetan Mitsukoshi.

This year, Santos Knight Frank reports three projects that are slated in Q1 2020: The Velaris Residences, a high-end development by Robinsons Land and Hongkong Land; Sonora Garden Residences by Robinsons Land and DMCI Homes; and Avida Towers Parklinks.

7. Co-living spaces and the rise of the micro-studio

With the traffic congestion in Metro Manila, co-living spaces have become the most viable solution for employees and young professionals working within or near central business districts, without having to pay premium apartment leases or buy condominium units.

A number of developers have been capitalizing on the growth of co-living. Among the primary players in this space are SM's MyTown and Ayala's The Flats, which are set up either within CBDs or around the fringes of business hubs. New units are up and coming for Dormiko, Zenya Lofts, and The Crib (Filinvest).

Various forms of affordable accommodations have also been introduced, such as the micro-studio. Unlike the multiple-occupant model of co-living players, a micro-studio rental apartment is built for a tenant who requires privacy. A micro-studio can average around 11 square meters. AboitizLand and Point Blue recently sealed a partnership that drives this category.

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