

COVID-19 & Philippine Real Estate

Impacts, Opportunities, and Strategies





Macroeconomic Overview

The effects of the COVID-19 on public health, trade, and finance have been disrupting economies worldwide. In the Philippines, the Enhanced Community Quarantine (ECQ) has put the country's industries on a standstill except for key services that needed to go on. Estimates on 2020 GDP growth is now expected to be between 4.3% and -0.6% according to the NEDA projections as consumption and production are anticipated to slow down.

In addition, overseas remittances are also threatened. OFW remittances accounted for 9.3 percent of the gross domestic product (GDP) last year. According to NEDA, around 100,000 potential job losses in the tourism and tourism-related services are expected and approximately PhP5.7 billion remittance will be foregone because of this. Around USD24 billion in remittances is expected for 2020.

Office Sector

In 2019, Metro Manila's office sector grew by about 700,000 sqm while overall vacancy remained below 5%. Work stoppages and disruptions were caused by the implementation of an enhanced community quarantine (ECQ) to curb the spread of COVID-19. As a result, projected office supply for 2020 is at 810,000 sqm, down from its initial projection of around 1.18 million sqm. Vacancy level is projected to be at around 10% as office expansions are expected to be put on hold coupled with the limited take-up of new spaces. This would translate to an office space demand of about 354,000 sqm.



Impact

- Anticipate a drop in real estate activities for 1H 2020
- Immediate pressure on rents for serviced offices.
- Due to travel bans, POGO operations are uncertain but are expected to contract until the end of the year.
- Immediate rental rate freeze moving to extreme downward pressure upon lifting of ECQ
- Shift from landlord market to tenant market, employee to employer, and seller to buyer. Benchmark is unclear due to uncertain market conditions
- Global financial pressures could drive more businesses to outsource manpower

Strategies

- Flexibility will be the global trend and key for office landlords in securing tenants
- Landlords should consider offering abatements, deferments and consolidations to retain existing tenants
- Retention of international and global tenants (large space occupiers and strong covenants) should be prioritized
- Landlords and other businesses should incorporate their experiences to better improve and institutionalize their respective Business Continuity Plans and Phased "Back to Office" Plans.

Residential Sector

Metro Manila's residential sector finished strong in 2019, with 97% of the total floated units absorbed by the market. As of Q4 2019, indicative weighted average selling prices of residential units have reached more than PhP200,000 per sqm equivalent to an appreciation of 4.8% quarter-on-quarter. In light of the crisis, payment terms are expected to be more flexible to minimize defaults. Pricing strategies are also expected to be reconsidered to sell the remaining inventory.



Impact

- Sale of residential properties have slowed during the ECQ and looks to continue.
- Residential lease rates are dropping and vacancy levels may continue to increase depending on the duration of the work-from-home scheme and possible number of job lay-offs.
- There will be forthcoming opportunities to purchase residential properties at discounted prices as some sellers may opt for liquidity

Strategies

- Reevaluate project launches and realistic market demand
- Revisit pricing structures and payment terms for new opportunities
- Opportunity for buyers with liquidity

Retail Sector

In the Philippines, domestic consumption drives more than 70% of the economy. The retail real estate segment has been one of the strongest yielding assets and top performers with about 5% vacancy in Metro Manila. However, due to the COVID-19, it is now one of the mostly badly hit asset classes.



Impact

- Landlords and tenants are significantly impacted by mall closures
- The behavioral impact of COVID-19 will result to a phased return to work that could similarly lead to a phased return to malls
- Mall vacancy levels to increase as people try to avoid going to crowded places
- More consumers will migrate to e-commerce as an alternative means of acquiring goods within the safety of their own homes

Strategies

- Engage with tenants to address their lease concerns for a win-win situation
- Strike a balance between physical and online retail
- Retailers should prepare to re-engage under the “new normal”

Hospitality Sector

Hotels and tourism-related businesses have felt the greatest effects of COVID-9, from a healthy 15% increase in tourist arrivals in 2019 to a complete travel ban in March 2020. In 2019, the average daily rate for Metro Manila was up by 10% but expect a totally different scenario for 2020.



Impact

- Low hotel occupancy rates due to the travel bans and airline closures
- Worldwide flights are down by 80% contributing further to the low occupancy rates
- Lost revenues from cancellation of events, conferences, and functions as a result of the ECQ
- Further cancellations and losses as the practice of social distancing becomes the new norm
- Significant to hefty discounts offered on hotel accommodations to attract more guests

Strategies

- Repurpose hotel rooms, F&B, and conference facilities for medical purposes or BPO workspace
- Hotels may be converted to a condotel or residential building
- Future hotel developers may have to rethink their development plans
- Existing owners should reassess options to drive revenue

Industrial Sector

The real estate industrial sector is essential in operating the backbone of the Philippine economy. According to the DTI's roadmap, it projects e-commerce to account for 25% of our GDP in 2020, and it is well on its way. COVID-19 has boosted the e-commerce industry as people's reliance to online transactions for their daily necessities increases.



Impact

- Industrial sector is demonstrating “green shoots”
- Initial slowdown due to supply chain disruptions due to halt of production of input raw materials from China
- Warehousing demand to increase for storage of essential goods
- Increased use of e-commerce prompts online retailers to secure additional storage spaces

Strategies

- Capitalize on storage requirements for medical supplies and essential goods
- Repurpose underutilized real estate assets as storage space for last-mile logistics
- Pivot to capture forthcoming demand in industrial logistics
- Expand industrial parks and ports

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