A Residential Sector Review for the Pearl of the Orient

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The Residential Sector Amid The Challenging Times

Research, May 2020

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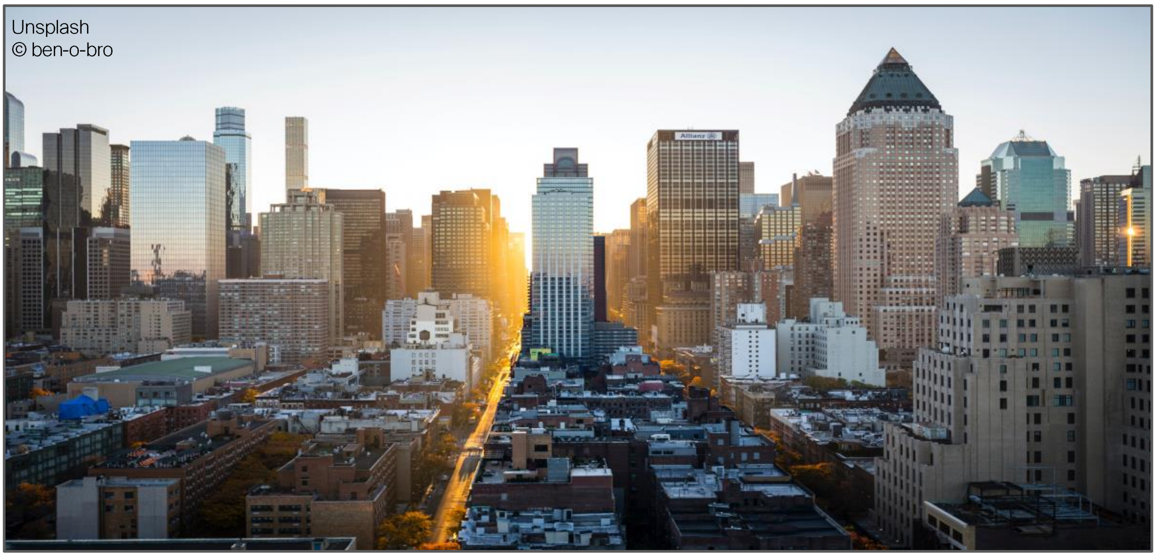

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The economy of the Philippines has been performing well over the past decade as evidenced by the GDP growth that averaged at around 6.3%. However, the COVID-19 pandemic emerged and virtually shutdown the economy as the government strictly implemented an Enhanced Community Quarantine (ECQ) on the entire country to control the spread of the virus. This has greatly affected businesses as some were forced to stop their operations while others had their employees work from home and maintained skeletal workforce in the workplace to attend to the day to day needs.

Household spending shifted to prioritizing the purchase of essential goods such as food, hygiene kits and healthcare items. All other expenses were limited in order to save money due to the uncertainty of the effects of the pandemic in the short to long term.

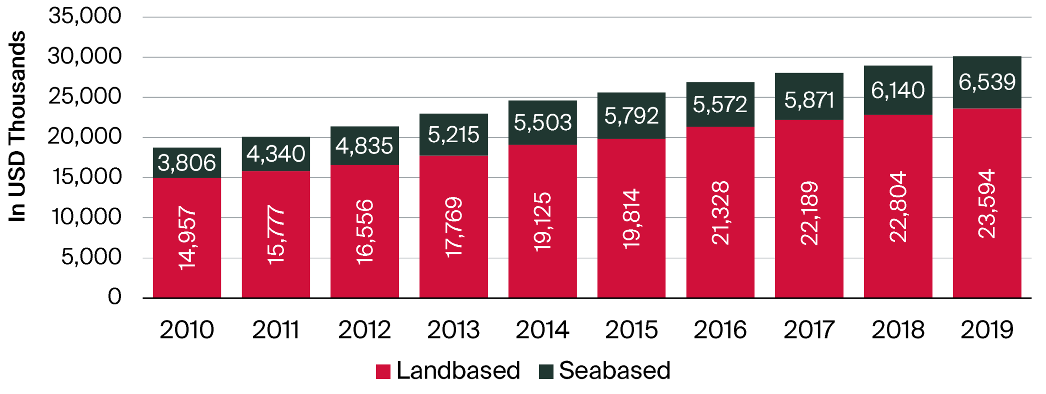
COVID-19 Impact on the Residential Sector

The residential sector, similar to the other sectors of the real estate industry, was affected by the pandemic situation. Construction in general, including residential developments, in the country have been postponed since the ECQ was implemented. Consequently, turnover dates and project launches were moved to a much later date.

In terms of residential sales, a slower velocity is expected since job security of OFWs, a major contributor to the residential sales, is at risk. Given that the country is sending more than a million workers abroad every year, remittances from the Filipinos will immensely take a hit with the on-going crisis. According to a study presented in Ateneo de Manila Center for Economic Research and Development, around 400,000 OFWs are on the edge of either losing their jobs due to the possible shutdown of the companies they work for. Others have experienced cuts on their salaries due to the slowdown of businesses in general. As a result, a decrease in cash remittances is seen at around US$3 billion to US$6 billion this 2020 or roughly around 10% to 20% of recorded remittances in 2019. National Economic Development Authority (NEDA) released a much higher projection of 20% to 30% dip in remittances from the previous year.

Job security for local employees is also at risk as the threat of closure for local businesses also looms large. This will likewise lay heavily on the residential market as household spending will have to be realigned with purchase of residential

FIGURE 1
Historical OFW Remittances



Source:
Bangko Sentral ng Pilipinas

units more than likely being put on hold until such time that some certainty of the future is established.

With this said, prospective buyers will opt for liquidity due to future uncertainty during this global pandemic. On the positive note, Bangko Sentral ng Pilipinas (BSP) already did necessary adjustments to help the country recover from the negative effects of COVID-19 and to stimulate spending and lending by dropping interest rates to 2.75% while the commercial banks have cut the reserve ratio requirement (RRR) to 12% which is intended to ensure the liquidity in the economy. However, banks may still be hesitant to approve loans because of the possibility of default since majority of the clients and consumers are already facing financial challenges brought about by the crisis.

The effects of the global pandemic have also weighed differently depending on the classification of the residential projects. Social and economic housing for horizontal developments have taken the largest hit among all housing types since they target the low-income earners who are mostly affected by salary stoppage and job lay-offs. Even though an immense housing demand is still unserved, the market for these types of housing has further diminished their capacity to purchase housing due to the financial distress brought about by the crisis. On the other hand, demand for middle income projects started to decline because prospective buyers are now reevaluating their investment decisions and majority of these buyers are OFWs who are at risk of being repatriated. However, sales performance of both open market and luxury projects are less likely to get affected by the crisis since affluent buyers are highly liquid.

Selling residential properties has been a challenge with the ECQ in effect. Traditional way of selling via on-site inspection, which is preferred by most buyers, is prohibited under the ECQ. Developers are leaning more towards virtual selling as people spend most of their time browsing the internet. Branded projects pose an advantage given that they have already established their products in the market. Also, residential projects that have facilities and property management systems in place will have a better chance of being sold.

The residential leasing market is also experiencing a slow down since a number of tenants have gone back to their homes due to the work from home arrangements while some have lost their jobs and were forced to pre-terminate their contracts.

For the upscale units, housing budget cuts have forced some tenants to request for rent reduction. Some landlords decided it was best to accommodate the request than risk losing the tenant, especially during these uncertain times. As much as 15% rent reduction have been given.

The overall vacancy level is expected to rise and lease rates expected to drop. The former may further continue to rise depending on the situation of job lay-offs and the duration of the work from home set-up. Overall, the demand for residential properties, in both the domestic and foreign market, has weakened and may weaken further in the succeeding months.

Vion Tower Makati
© Megaworld Corporation

Recommendation

Foregoing new project launches for 2020 would be the prudent and most developers have already taken this option. The ongoing health crisis has caused financial distress to majority of the households particularly those belonging to the middle class and below. The OFWs are also expected to take a major hit financially which will also result to a diminished market demand for residential properties.

A moratorium on in-house financing plans from key shelter agencies (KSAs) has been approved to help avert the effects of the pandemic to the residential property sector. It allows all unpaid amortizations to be paid within six (6) months without interest and penalties and shall be applied in both horizontal and vertical developments initially covering a two-month period but can still be extended if necessary. Private real estate developers are also encouraged to do the same. These strategies can be beneficial in alleviating the financial difficulty of buyers in this time of uncertainty while giving some assurance to developers of getting paid.

In the middle of the negativity surrounding the pandemic and economic downturn, there are some opportunities arising. Some residential properties may be acquired in the secondary market at a discount from sellers financially distressed or opting for liquidity.

Developers must be cautious with their next steps and take into consideration the changes in the market. Future buyers may be inclined to invest in projects which offer sustainable and convenient living conditions with a highly competent and professional property management team in place. Mixed-use developments will be more sought after as these will be fully integrated and self-sufficient communities. With the support coming from government policies and cooperation from all sectors, recovery of the residential property market will be imminent.

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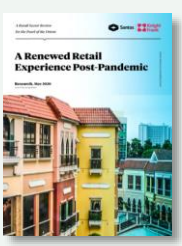

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