

# Metro Manila Market Update

**Research, Q2 2020**



## COVER STORY

# Philippines to Withstand GDP Contraction on the back of Strong Macroeconomic Fundamentals

### SNAPSHOTS

Economic Indicators

**-16.5%** ▼

GDP  
Q2 2020

**2.4** ▼

Inflation Rate  
Aug 2020

**-2.4%** ▼

OFW Remittances  
Jul 2020

**6.5%** ▼

Avg. Bank Lending  
Dec 2019

**1.146** ▼

91-Day T-Bill  
Aug 2020

**₱48.8** ▲

Avg. PhP-USD  
Aug 2020

## Gradual economic recovery expected despite slipping into technical recession in Q2

The Philippines entered into a technical recession after Gross Domestic Product (GDP) dropped by 16.5% in Q2 2020, bringing the first half average to -9%. The figure is the lowest recorded quarterly growth since the 1981 series. This was mainly caused by the continued lockdown in the various areas of the country, which covered the entire 3 months of the second quarter. The community quarantines, together with other health and safety measures, were put in place to prevent the spread of COVID-19, despite the adverse effects to the economy.

The sectors most adversely affected by the lockdown were manufacturing (-21.3%), construction (-33.5%), and transportation and storage (-59.2%). During the various degrees of community quarantines in the country, businesses which were able to operate were either practicing a work-from-home scheme, maintaining a skeletal workforce system or both.

Demand coming from consumers were mostly limited to essential goods, such as food and basic pharmaceutical products. Moreover, construction activities and public transportation were brought to a standstill. This led to the decline in the aforementioned sectors. The lockdown was only slightly relaxed in June with the implementation of GCQ in areas with high-concentration of COVID-19 cases, such as Metro Manila.

Among all the segments, only government final consumption expenditure posted positive growth, currently at 22.1%. National Economic and Development Authority (NEDA) adjusted its full-year GDP growth forecast to -5.5%, from -2% to -3.4% in May 2020. In order to achieve this, the economy must not decline by more than 2.2% in the second half of the year. Despite the dismal figures, the government remains optimistic that the effects



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Table 1  
Philippine Credit Ratings

Credit Rating Agency	Rating	Outlook
Moody's Investors Service	Baa2	Stable
S&P Global Ratings	BBB+	Stable
Japan Credit Rating Agency	A-	Stable
Fitch Ratings	BBB	Stable

Source: Moody's, S&P, JCRA, Fitch

are only temporary and the economy will gradually bounce back supported by strong macroeconomic fundamentals.

The country reported an inflation rate of 2.7% in July 2020, higher than the 2.5% recorded in June. The increase was attributed to increasing transport costs but the figure remained well within the government's target. In terms of interest rates, Bangko Sentral ng Pilipinas (BSP) had consecutively trimmed down interest rates, bringing the current policy rate to 2.25% as of June 2020. The low inflation, together with low interest rates, supported the domestic economic activity by boosting credit activities and encouraging additional consumer expenditure.

In addition, various credit rating agencies have assigned positive credit ratings to the Philippines

despite the negative GDP growth in Q1, while other sovereigns have already been given downgraded ratings. Debt watcher Moody's Investors Service affirmed its "Baa2" rating for the Philippines in July. The rating is based on the country's decade-long track record of improving macroeconomic stability and credit metrics. Similarly, S&P Global Ratings assigned the country a "BBB+" rating, stating that the country's strength includes its external position, peso's stability, and increased dollar reserves during the crisis.

Japan Credit Rating Agency assigned the country's first grade "A" level rating in June. The new credit rating of "A-" was an upgrade from the previous "BBB+". This reflects the country's sustainable economic performance and resiliency to external shocks due to

the government's solid fiscal position and highly sound banking sector.

However, Fitch Ratings said that it will reevaluate the "BBB" rating that it gave the country in May, taking into account the GDP contraction in Q2.

In terms of economic recovery, the government continues to bank on the gradual reopening of the economy in the last half of 2020, increased government spending on infrastructure projects, and the passing of Bayanihan 2 to kickstart the economy. Under the Bayanihan 2 bill, the government will allocate PhP162 billion to support operations and response measures to the heavily affected sectors. On the other hand, Build Build Build program is expected to further stimulate government spending and generate employment. Moreover, the government plans to

## COVER STORY

implement different economic stimulus packages to address setbacks caused by the pandemic.

Gradual economic recovery is expected once consumer confidence returns, and factory, construction, and transportation activities are restored. BSP Governor Benjamin Diokno stated that unlike in the previous crises, the current economy is not structurally weak and the contraction only reflected the effects of the lockdown. In contrast, the 1997 Asian Financial Crisis and the 2007-2008 Global Financial Crisis, had resulted from the inherently weak components of the economy.

### REAL ESTATE MARKET

PEZA recorded positive FDI half-on-half growth of 26% in the first six months of the year, although total economic zone investments were 27% lower year-on-year. The positive growth in FDI was propelled by investments in the manufacturing and IT-



BPM sector, which increased by 24% and 37%, respectively. The investments are expected to boost the industrial and office sectors of the real estate industry. Even during the initial period of the lockdown, the two real estate sectors remained resilient backed up by rising usage of e-commerce, demand for essential goods, and growth of business process outsourcing sector in the country.

The Philippines reached a milestone in the capital market with the first Real

Estate Investment Trust (REIT) IPO by Ayala-Land-sponsored AREIT Inc. AREIT's portfolio consists of office and commercial buildings in Makati: Solaris One, Ayala North Exchange, and McKinley Exchange, offering a total of 502.57 million shares, at an indicative price of Php30.05 per share. This will likely pave the way for more property firms to list REITs. REITs are also seen to have a multiplier effect on the economy due to enhanced economic activity resulting from the boost in capitalization. 🏠📈



## OFFICE RESEARCH

# Metro Manila Office Sector Endures Despite Trying Times

## Resurgence of Metro Manila Office Market Pushed Amid Health Crisis



office market during the quarter.

Notwithstanding the growing vacancies, office developers remained steadfast with respect to their asking rents. Thus, the weighted average lease rate in Metro Manila rose to Php 1,139 per sqm per month, translating to an increase of 0.79% quarter-on-quarter (q-on-q), and 5.75% year-on-year (y-o-y).

### Metro Manila Office Sector Overview

The Metro Manila Office Sector was challenged to remain buoyant despite the threat of COVID-19. The implementation of Enhance Community Quarantine in March caused sluggish office take-up. However, through its well-built foundation and longevity, the office market was seen persisting during the 2Q of 2020.

Due to the strict government requirements concerning construction, no new office buildings were completed in the 2nd quarter. Despite the lack of new supply, however, the Metro Manila vacancy level

continued its rise to 4.73% from 3.95% in the preceding quarter. Leasing transactions were mostly put on hold as companies took a wait-and-see approach towards new offices. The low levels of new office take-up led to a net loss of 50,047 sqm leased for the quarter.

There was also an increase in the number of sub-leases being offered in the market during Q2, as tenants looked to lessen their real estate costs by giving-up office space. These sub-lease opportunities, while not counted in official vacancy figures, do suggest a further softening of the

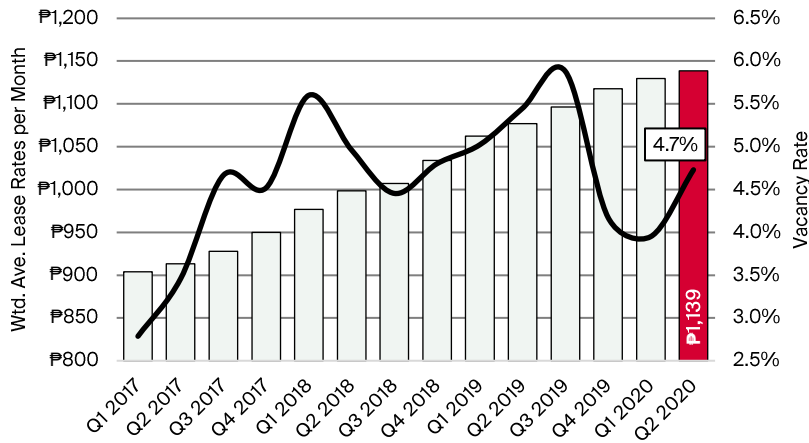
### MAKATI

The most prominent business district in the country continued to command the highest headline rental rates in Metro Manila. Occupiers still held on to their prime properties during the quarter. Landlords in the CBD retained a same amount of Php 1,493 per sqm per month in the average monthly lease rate for 2Q 2020 with a 2.13% y-on-y growth. Additionally, the vacancy level further improved to 2.19% despite the threat of COVID-19.

The Makati CBD remains to be one of the most sought-after address by both multinational and local

## OFFICE RESEARCH

FIGURE 1  
Metro Manila Office Lease Rate & Vacancy Level



Source: Santos Knight Frank Research

companies. Seeing this opportunity, developers are still keen in introducing more than 333,000 sqm of office supply in the next five years. Of this upcoming supply, around 89,000 sqm is anticipated to be operational by the end of the year.

### FORT BONIFACIO

The impact of COVID-19 and subsequent lockdowns was slightly felt by the office sector in Fort Bonifacio. The aggregate vacancy rating in the business district increased to 4.58% during 2Q from 3.97% in the previous quarter. But similar to the Makati CBD, weighted average rents still increased by 2.49% from the previous quarter to Php 1,274 per sqm per month.

In succeeding years, majority of office leases was seen to be driven by the upcoming office developments rather than existing ones. An estimated 540,000 sqm of office space is currently in the pipeline for Fort Bonifacio within the next five years.

### BAY AREA

The demand and lease rate of the office sector in the Bay Area moved sideways from Q1 2020. Aside from the COVID-19 situation, international travel restrictions and resumption of POGO operations remained uncertain during the period. As of 2Q 2020, the average vacancy level in the business district was recorded at 0.59%. The average headline lease

rate, on the other hand, was observed at Php 1,042 per sqm per month.

Despite the uncertainties, the Bay Area is foreseeing the highest upcoming new office supply in the metropolis. This is attributed to the availability of developable land in the area. Approximately 650,000 sqm of developments are expected to become operational for the next five years, 70,000 sqm of which are slated to come online this year.

### ORTIGAS CENTER

Pre-terminations and non-renewals outweighed new leases during the 2nd quarter in the Ortigas Center. Vacancy levels rose to 5.10% , up from 2.97% of the preceding period. Ortigas thereby registered the highest increase in vacancies in the metropolis. Further, with no new buildings in the market during the quarter, there was a net loss of 22,569 sqm of leased space. Consequently, the average lease rate in Ortigas went down to Php 784 per sqm per month, the lowest among major CBDs in Metro Manila.

Around 623,000 sqm of upcoming office space is expected to come online in

## OFFICE RESEARCH

the Ortigas area over the next five years, including 100,000 sqm in 2020. This is the second highest supply pipeline after to the Bay Area.

### QUEZON CITY

Similar to Ortigas Center, the office market of Quezon City experienced the same trend of rising vacancy levels and declining lease rates. Approximately 6,950 sqm of space was vacated during the quarter. This translates to an increased vacancy level to 9.98% from 9.35% from 1Q 2020. Additionally, the average lease rate declined to Php 949 per sqm per month, down by 0.09% q-o-q.

Approximately, 61,000 sqm of new office space is still expected to come online by the end of 2020 in Quezon City. This is part of the 395,000 sqm of upcoming space within the next five years, 47% of which will be coming from SM Prime Holdings.

### ALABANG CBD

The office market in Alabang CBD exhibited the same trends as Fort Bonifacio. Rental rates increased despite the prolonged lockdown period. As of 2Q 2020, the

average rent in the business district inched up to Php 859 per sqm per month. This translates to a 10.6% y-o-y rental growth, and 0.25% q-o-q increase.

This rental trend, however, has contributed to the increasing vacancies in the area. More than 9,000 square meters of office space were vacated during the quarter, pushing the aggregate vacancy level in the district to 5.42%.

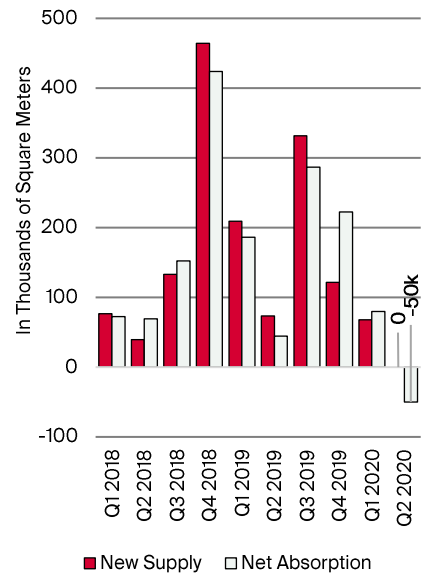
Although Alabang has the potential to be a major CBD like Makati and Fort Bonifacio due to its vast available land remaining, it nonetheless has the lowest supply of upcoming offices. At present, slated projects in the next five years are estimated to boost office space supply by only 216,000 sqm, for which approximately 12,000 sqm is expected to complete in 2020.

### METRO MANILA OFFICE SECTOR OUTLOOK

Approximately, more than 472,000 sqm of Prime and Grade A Office spaces are expected to operate by the end of the year 2020, while 2.7 million sqm are anticipated to come online in the next five years. There may be no new office pipeline launches until at least the office market

FIGURE 2

### Metro Manila New Supply, Net Absorption & Vacancy Rate



Source: Santos Knight Frank Research

recovers and stabilize again.

The office rents in Metro Manila will be seen to be further exposed to demand pressures. Numerous landlords are still under-negotiation with their existing tenants. Although the forfeited cash deposits from pre-terminations may curb their loss of revenues in the initial months, the overall decrease in office demand for the rest of the year will still be felt by the lessors. Development and expansions will be set aside by most companies and improvement of business continuity plan will be prioritized. However, the shift to a tenant-favorable



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market is anticipated to uplift the medium- to long-term situation.

The POGO industry has portrayed an inconclusive role for the past months. Due to given high payable taxes by the Bureau of Internal Revenue (BIR), some operators have shut down their operations, resulting in more office vacancies for this quarter. POGOs may re-enter the country again or operate at a different entity but that will entail new license fees and additional capital expenditures on office spaces. The easing of international travel flights may bring back Chinese nationals to the country but the operations of the POGO will remain uncertain.

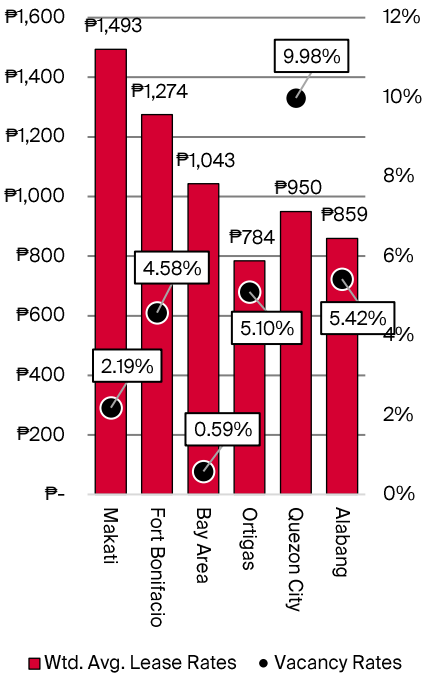
From a positive perspective, the IT-BPO industry is still foreseen as the major growth driver of the Philippine Economy and will continue to thrive as they adapt to the new normal. Amid these unprecedented times, the majority of the outsourcing companies around the globe recognized the Philippines as a top location for office building developments. Developers should consider this opportunity to enhance and innovate their office spaces that will fit the new normal



scheme and will attract more potential occupiers. During the lockdown period, the overall job market declined but the labor requirements of call center firms remained stable. The BPO industry also experienced difficulty in work-from-home scheme due to productivity reasons thus. This signifies bright prospects for flexible office spaces.

Moving forward, the dilemma facing the office market right now is just temporary. Once the business restrictions further ease and more accessible medical solutions have been produced, the demand for office spaces remains an eye for the majority of occupiers. The longevity of the Real Estate Industry will lead to an evolving and resilient new face for the office market.

FIGURE 3  
Metro Manila Office Rents & Vacancy Rates for Q2 2020



Source: Santos Knight Frank Research

## RESIDENTIAL RESEARCH

# Residential Sector Continues to Withstand the Pandemic

## Metro Manila Residential Sectors continuously grows albeit at a slower pace

Amid strict quarantine protocols, the Metro Manila Residential sector showed little movement in the second quarter of 2020. Selling prices of residential condominiums recorded a growth of less than 1%, indicating stable market value as of this quarter. On the other hand, supply remains unchanged as several real estate and construction activities were prohibited during the period.

### Supply and Demand

There were no new residential project launches for this quarter due to lockdown guidelines and unsteady market conditions. Several developers continue to market previous projects and hold inventories while waiting for market activities to normalize.

Demand for residential projects decreased as clients minimize spending activities and prefer liquidity. Total units sold

decreased by 5% Q-o-Q due to pull-outs and cancellations. Luxury developments were mostly affected due to unchanged prices, discouraging investors and buyers who wish to remain liquid. Percentage sold for this classification declined to 86% from 93% last quarter. On the other hand, demand for other residential classifications only decreased by approximately 1% suggesting that the market can still absorb high-end, middle income, and affordable projects during the pandemic.

Among all CBDs, Alabang, Ortigas and Makati recorded high demand for this quarter. Studio units were the most preferred unit type in Alabang and Ortigas while 1-bedroom unit was the most preferred in Makati.

### SELLING PRICE

Developers have been



Aurelia Residences  
© Shang Robinsons Properties

using aggressive marketing strategies in order to attract and accommodate clients. The use of social media platforms and websites for virtual inspections created a channel among agents and customers for better communication. The offering of flexible payment schemes such as extended payment plans for downpayments, lower monthly amortizations among others were introduced for several projects. Significant discounts were also given on spot cash payments and for unsold or re-offered

RESIDENTIAL RESEARCH

inventories from completed projects. The average selling price for Metro Manila settled at PhP224,834 per square meter which increased by 0.5% from Q1 2020.

Despite the low residential demand this quarter, the Bay Area again posted the highest weighted average selling price at PhP285,356 per square meter among all other CBDs. The price decelerated by 1.4% Q-o-Q from an average selling price of PhP289,263 per square meter last quarter. Bay Area residential market mainly caters to BPO and POGO employees who are mostly working from home during the duration of the lockdown.

Taguig followed Bay Area with recorded selling prices that range from a low of PhP128,524 per square meter to a high of PhP455,323 per square meter. The average selling price at PhP274,606 per square meter was pulled up by luxury projects like the Aurelia Residences.

The growth in selling prices for Taguig residential projects further decreased the demand for units in the district as it recorded the lowest absorption rate in Metro Manila for this quarter. The selling price per square meter grew by 1.8% Q-o-Q and 14.9% Y-o-Y.

Residential selling prices in Makati ranges from a minimum of PhP189,235 per square meter to a maximum of PhP361,524 per square meter. Average selling price saw an increase by 1.5% with prices for high-end projects growing the highest at 2.1% Q-o-Q. Price growth for high-end residential projects in Makati was mainly due to the projects nearing completion and turn-over.

OUTLOOK

Project completion and turn-overs will be delayed due to the constraints brought about by the pandemic. Developers will withhold new project launches until next year or when market conditions stabilize. Further, they will need to be more aggressive in finding ways to reach their clients under the new normal.

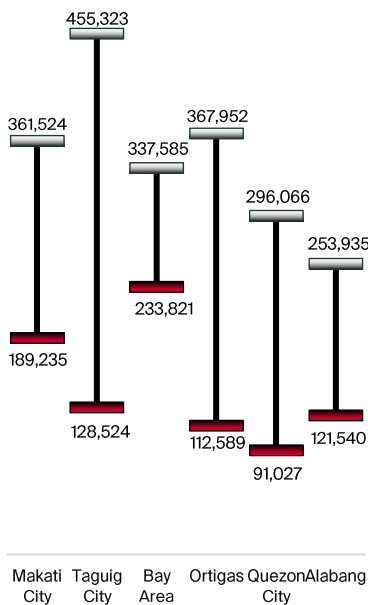
The pandemic will greatly shape the future of residential developments. Short of being a “green” or “well” building, more emphasis will be given for more healthy spaces and improved sanitation. This is in response to being able to address issues like those arising from the pandemic as well as transitioning into the new normal. 🏡🔗

Table 2  
Absorption rate and Preferred Unit Type per Area

Area	Units Sold (%)	Preferred Unit Type
Makati	98.60%	1BR
Taguig	97.79%	Studio
Quezon City	96.96%	Studio
Ortigas	91.10%	Studio
Alabang	94.85%	Studio
Bay Area	95.71%	Studio
METRO MANILA	95.92%	1BR

Source: Santos Knight Frank Research

Figure 4  
Indicative Selling Price Range per Area (in Php/sqm)



Source: Santos Knight Frank Research



## RETAIL RESEARCH

# The Metro Manila Retail Sector Amidst Quarantine and Beyond

## Retail Sector in the new normal amidst pandemic headwinds



The retail sector is one of the industries greatly affected by COVID-19. This heavily impacted the once booming sector in Metro Manila as stringent quarantine measures were implemented resulting to limited mobility, reduced spending, closure of businesses and overall depressed market conditions.

The sharp increase in unemployment cut consumer spending significantly. Widespread job lay-offs dampened the spending power of Filipinos which prompted many to reduce their household spending and shift their

focus on essential goods such as food & beverage, utilities, healthcare, and communication.

Health risks posed by the COVID-19 virus, as well as the surge in the cases of infection, instilled a lingering fear to the general public. People limited their trips outside their homes to reduce the risk of contracting the virus. Along with this came a drastic reduction for spending on food consumed outside homes, transportation, recreation and leisure among others.

An Enhanced Community Quarantine (ECQ), the

strictest form of quarantine measure, was imposed in mid-March. In general, only one person per household was allowed to leave the home except for cases wherein persons were holding critical responsibilities such as those providing health care, delivery of essential goods and services and the like.

All forms of public transportation were suspended and private transportation were subject to inspection at checkpoints along various locations to make sure of proper compliance to the imposed restrictions.

Essential businesses such as supermarkets, convenience stores, pharmacies, and banks, were allowed to operate at shortened hours and with strict implementation of social distancing within its premises. Food & beverage establishments were limited to take-out and delivery as dining-in was prohibited. Also, major mall operators voluntarily waived rental payments to help their tenants alleviate losses due to temporary closures and to avoid

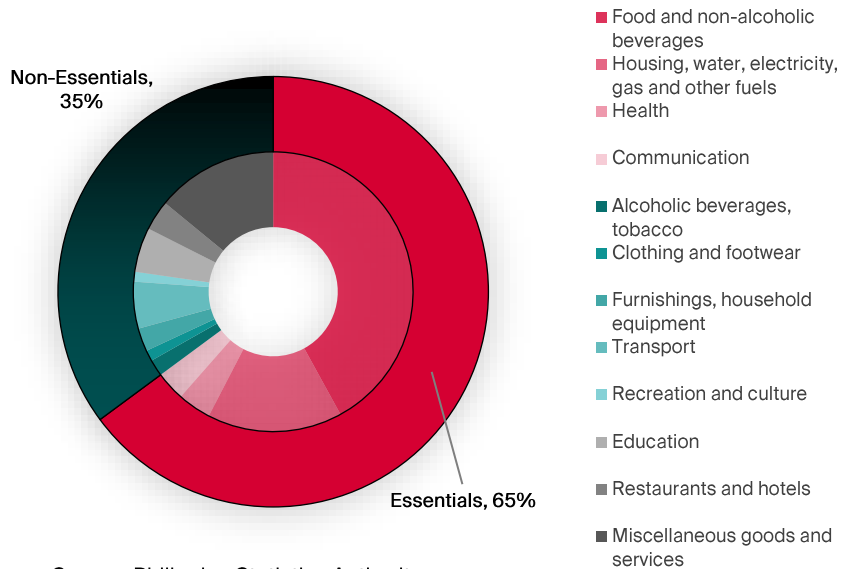
## RETAIL RESEARCH

sudden increase in mall vacancy.

The implementation of a less stringent Modified Enhanced Community Quarantine (MECQ) was done in mid-May. Under the MECQ, malls and commercial centers partially reopened to the public but strictly for non-leisure activities. In line with the partial reopening, foot traffic inside malls were estimated to be less than 20% as people remained reluctant to go out because of the fear of getting infected.

The General Community Quarantine (GCQ) is the second most lenient form of quarantine measure that was imposed in Metro Manila last June. At this time, around 60% of retail stores were already operational as most non-essential commercial activity resumed its operations. Dining-in was allowed for food & beverage establishments provided that they operate at 30% capacity and maintain proper social distancing. Grooming services such as those provided by salons and barber shops were allowed to accept customers as long as proper hygiene and sanitation together with proper social distancing was practiced.

Figure 5  
Share of Essential & Non Essential Goods



Source: Philippine Statistics Authority

As the major shopping malls gradually reopened, foot traffic further improved but remain way below desired levels. With public transportation lacking and most of the employees and workers still on a work-from-home scheme, a number establishments continue to struggle with their sales.

Neighborhood malls and commercial centers located near residential areas thrived as these are very accessible and are able to provide the essential goods and services to their patrons. Turnover has been quick as patrons stick to buying the essentials and do not linger when done.

## TRENDS IN RETAIL SECTOR

Metro Manila, consumers started to reassess their needs as the overall situation remained uncertain. Sources of income became a concern for those who ended up unemployed while some heavily relied on government subsidy for support.

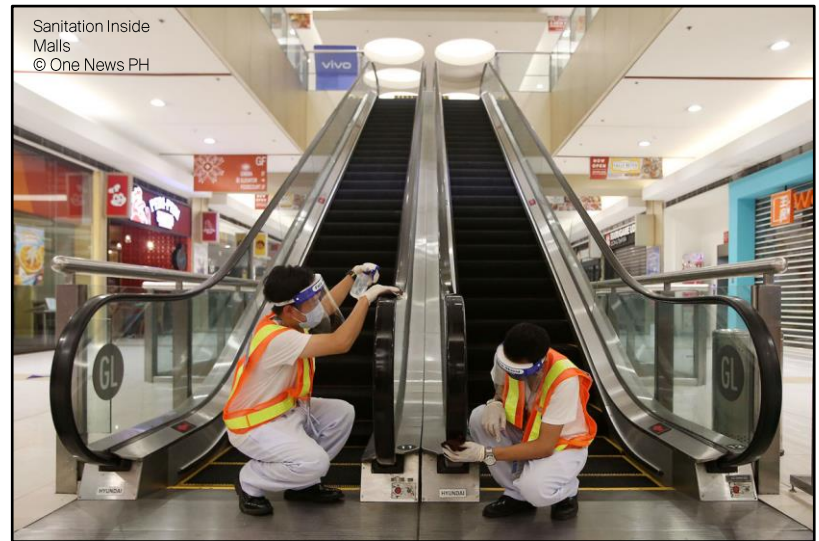
During the ECQ, Filipinos reportedly spent their money on essential goods. People quickly rushed to grocery stores to stock up on food, water, medicine, and sanitation items (e.g. alcohol, sanitizers, cleaning solutions, etc.) as people will be locked down in their houses for a long time.

## RETAIL RESEARCH

As the quarantine transitioned to MECQ, consumers started to purchase goods online through the use of mobile apps and e-commerce platforms. These goods were delivered directly to their homes or to locations of their choice. People then started to buy computers and other gadgets to enhance their work-from-home capabilities and in preparation for online schooling. Exercise equipment (e.g. active wear, treadmills, spinning bikes, dumbbells, etc.) were high in demand as proper exercise was found to be key in minimizing the risk of infection.

As the quarantine transitioned to GCQ, people gradually started to go to malls to directly buy their needs. During this time, people start to order comfort food to satisfy their cravings. Amidst the limited public transportation, some people resorted to the purchase of bicycles, electric scooters, and motorcycles as a means to get back to work or to go about their revived routines.

The global pandemic evidently presented a great challenge towards retailers as the people were forced to stay at home to reduce the risk of virus



transmission. In order to restart their business under the current situation, mall operators and retailers needed to reconfigure their business models.

Retailers quickly repositioned themselves as an essential to boost sales and gain relevance in the market. During these times, clothing & apparel brands, produced personal protective garments such as face masks, face shields, and protective jackets, while food & beverage establishments sell uncooked versions of their food products in groceries or have them available via delivery so that people can cook these at home.

Retailers diversified as they became more readily available to its customers through different omni-channels. As the government limited the

number of people allowed to go out of their houses, mall operators and retailers boosted their online presence to serve its home-staying customers in the midst of the pandemic. Some retailers also provided order online & delivery/store pick-up options for a safe and convenient shopping option. Retailers also adopted the concept of cashless transactions through the use of online banking and online money transfer apps, as a mode of payment upon purchase.

Retailers were also observed to repurpose their assets to effectively serve its customers. On the onset of reopening malls and commercial centers, retailers assessed what they can do to their existing space as health and safety protocols must be strictly imposed for the well-being



## RETAIL RESEARCH



commerce. This is in the hope to increase market relevance and become readily available to the consumers. As people become more concerned about their health and well-being, they will resort to technology to address their need to purchase goods. The “bricks to clicks” phenomenon will become more widespread as online shopping gains more traction. In line with this, the use of cashless transactions will be more prevalent in terms of actual and online purchases in order to reduce the risk of infection and transmitting the virus.

of their customers. Nowadays, installation of sanitation equipment became more prevalent inside malls. Also, large open spaces inside malls that were previously used for public gatherings and events, are now turned into an extension of dining areas to promote social distancing.

### RETAIL SECTOR OUTLOOK

Mall foot traffic in Metro Manila is seen to increase further by the end of the year, towards the holiday season. Mall operators have more or less accepted the reality that foot traffic will not return to pre-COVID numbers until

an effective and accessible vaccine has become available.

As the pandemic continues to push through, along with the struggling sales of non-essential retailers, these tenants will rethink of the spaces they are renting and may prefer to vacate the premises that may increase mall vacancy. This puts pressure on mall operators as they continue to engage with their tenants by providing flexible payment terms and rental abatements to prevent upsurge in retail vacancy.

Mall operators and retailers will further utilize modern technology and increase its omni-channels through e-

Mall operators and retailers are boosting their online presence to provide convenience to customers by investing heavily on e-commerce. Currently, mall operators and retailers offer an option to their customers to order online and have their purchases either picked-up at the nearest mall branch or delivered to their doorstep.

The growth of the retail sector will be hindered for quite some time as long as the virus persists or until an effective way of controlling it and its effects is

*Continued in page 23...*

## HOSPITALITY RESEARCH

# Hospitality Sector Banking on Domestic Tourism to Drive Recovery

## Pivoting hotel operations to emerging trends is key to resiliency

The Philippine tourism industry has been faring well in the past decade. It displayed continuous positive trajectory in terms of international tourist arrivals, and even surpassing targets for GDP contribution, revenue generation, and domestic arrivals.

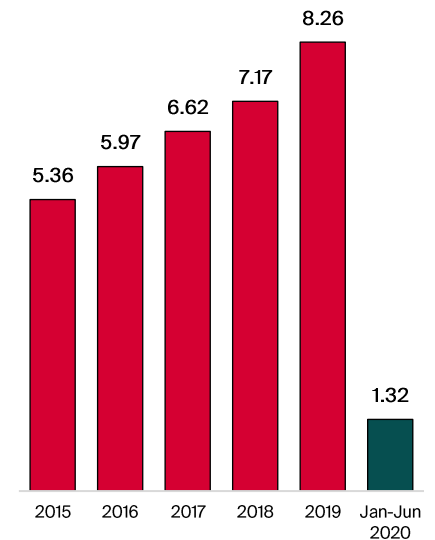
In 2019, the country recorded a new record high of 8.26 million international tourist arrivals, which is 15% higher than the recorded 7.17 million arrivals in 2018. Furthermore, the contribution of Tourism Direct Gross Value Added (TDGVA) to the Philippine economy as measured by the Gross Domestic Product (GDP) is estimated at 12.7% or PhP 2.5 trillion in 2019, the highest figure since 2000. Both inbound and domestic tourism expenditure grew in 2019 by 23.2% and 10.4% respectively. In terms of employment, around 5.71 million individuals, or 13.5% of the total labor force, were employed in tourism industries.

However, the recent outbreak of COVID-19 has

severely affected the local tourism sector. Data from the Department of Tourism (DOT) revealed that visitor arrivals were recorded at 1.3 million from January to June 2020. This translates to around 68% decline year-on-year. The adverse effect on tourism was also seen on a global scale. According to World Tourism Organization (UNWTO), international tourism figures were down by 22% year-on-year in Q1 2020 alone. This is mainly pulled down by the 57% decrease in the month of March, when most of the lockdowns were implemented in the different parts of the world. Among the regions, Asia and the Pacific experienced the biggest impact.

The pandemic has affected not only the tourism sector but also the hospitality industry in general. Different areas in the country have been subjected to lockdowns of varying degrees since mid-

Figure 6  
Philippine Visitor Arrivals  
(in Millions)



Source: Department of Tourism

March. The consequent implementation of international and domestic travel ban has put restrictions in the operation and occupancy of hotels. Moreover, leisure stay has been prohibited and accommodation establishments are only to accept guests that fall under the classifications permitted by the DOT. Furthermore, the associated risks of contracting the virus has negatively affected the general attitude of both domestic and foreign travelers.

HOSPITALITY RESEARCH

METRO MANILA  
HOSPITALITY SECTOR

Metro Manila has been put under various degree of quarantines from a strict Enhanced Community Quarantine (ECQ) in March 16, to a downgraded General Community Quarantine (GCQ) last June 1.

Under these quarantines, accommodation establishments were not allowed to accept guests unless they secure a Certificate of Authority to operate by the DOT. Even then, hotels can only accommodate certain types of guests. These are: (a) guests who have existing bookings, (b) long staying guests, (c) stranded OFWs, Filipinos, or foreign nationals, (d) repatriated OFWs, (e) Non-OFWs needing mandatory facility-based quarantine, (f) essential workers and employees of exempted establishments e.g. BPOs.

In terms of hotel operations, skeletal workforce system is being implemented. Moreover, ancillary establishments within the hotel premises are not allowed to operate or provide room service. F&B establishments, however, are permitted to prepare meals to guests or offer take-out and delivery services to customers.



Other sectors, such as gaming and transportation, are also experiencing disruptions in their operations. PAGCOR-owned and operated casinos, as well as licensed and integrated resorts in Metro Manila have temporarily suspended their operations. Meanwhile, all local carriers have suspended both commercial international and domestic flights in light of the travel ban. Both Cebu Pacific and Philippine Airlines were restricted to servicing cargo flights to transport medical supplies and sweeper flights for stranded passengers and repatriated individuals.

ECQ-MECQ

Among all the hotels within Metro Manila CBDs, only 43% remained operational during ECQ and MECQ to accommodate guests permitted by the DOT. In terms of hotel rooms, around 36% of the total

Table 3  
Absorption rate and Preferred Unit Type per Area

	ECQ/MECQ (March 16 to May 31)	GCQ (June 1 to Present)
Operational Hotels	43%	60%
Occupancy (Operational)	58%	50%
Occupancy (MM CBDs)	25%	30%
Average Daily Rate Discount	28%	25%

Source: Santos Knight Frank Research

inventory were made available to guests. Some accommodation establishments, especially those with higher room configuration, opted to offer only half of their total rooms to better practice social distancing.

Over-all occupancy level in Metro Manila plunged down to 25% during the lockdown. Those that continued to operate posted 30% to 95% occupancy level, or around



## HOSPITALITY RESEARCH

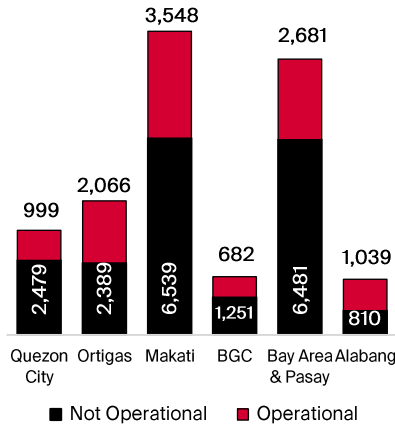
58% on average. Most of the hotel rooms were occupied by BPO employees and other essential workers.

In order to sustain business operations amid the low occupancy, hotels were prompted to renegotiate their average daily rate (ADR). Some hotel operators extended additional discounts to BPO firms on top of corporate rates as a means of attracting more occupants. A few of the hotels did not change their ADR while others offered as much as 58% less of their usual room rates, bringing the average ADR discount offered to 28%. Due to the high discounts offered, some hotel operators were reported to operate even at a loss, only doing so out of altruism, especially for their employees and front-liners.

### GCQ

During GCQ, the percentage of operational hotels in Metro Manila increased to 60%, coming from 43% in ECQ-MECQ. This is caused by a more relaxed quarantine and more hotels acquiring permit to operate from the DOT. Similar to ECQ and MECQ, smaller room cuts were offered by accommodation

Figure 7  
**Hotel Rooms Offered per CBD (ECQ-MECQ)**

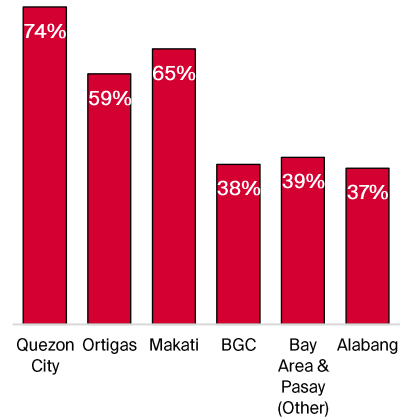


Source: Santos Knight Frank Research

establishments during GCQ as DOT only permits single and double occupancy rooms. Some hotel operators repurposed a portion of their facilities to long-stay rooms and work spaces. Some of the notable brands that have this product offering are Go Hotels, Summit Hotels, and Seda Hotels.

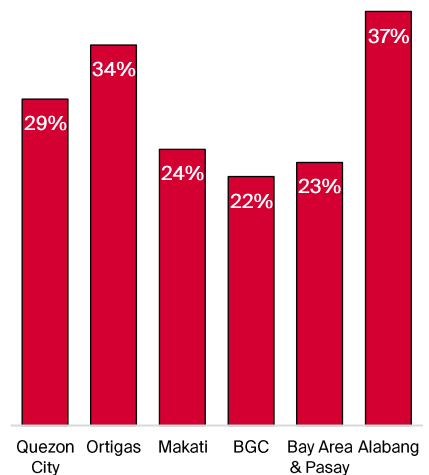
In contrast, lower operational occupancy levels are recorded during GCQ, ranging from 25% to 95%, resulting to 50% on average. A main factor to this decline is BPO employees moving out of the hotel establishments and adopting work-from-home scheme. There has been a shift from BPO employees to stranded and repatriated OFWs as the

Figure 8  
**Average Occupancy Rate per CBD (ECQ-MECQ)**



Source: Santos Knight Frank Research

Figure 9  
**Average ADR Discount Offered per CBD (ECQ-MECQ)**



Source: Santos Knight Frank Research

main type of guests. Among the CBDs in Metro Manila, Quezon City and Makati City recorded the

## HOSPITALITY RESEARCH

highest average occupancy levels. This can be explained by the presence of several 3-star hotels, which is the more preferred accommodation-type by stranded OFWs and foreign nationals.

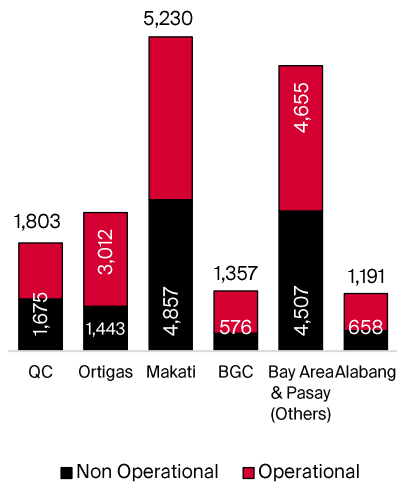
In terms of ADR, discounts offered during GCQ are slightly lower than in the previous months, averaging 25%. Some of the hotels that have already operated during ECQ and MECQ slightly decreased their room rate discounts to compensate for the additional costs incurred in complying with the health and safety protocols by the DoT.

Moreover, some hotels that have started operating only during GCQ offered minimal discounts to recover some of the lost revenues when they temporarily stopped operations.

### UPCOMING SUPPLY

Metro Manila is expected to welcome an additional supply of 23 hotels, which will offer around 6,800 rooms, from 2020 to 2024. Around 1,500 rooms are estimated to be offered by the end this year, down from the original forecast of about 2,700 rooms prior to the quarantine. The delay in completion dates

Figure 10  
**Hotel Rooms Offered per CBD (GCQ)**



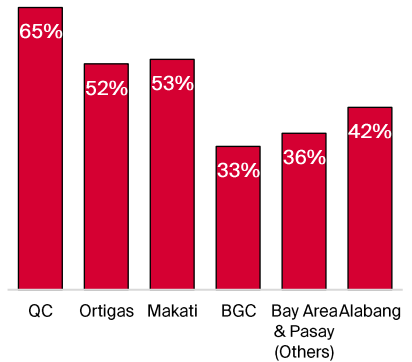
Source: Santos Knight Frank Research

of hotels are caused by several factors such as extended lockdown, supply chain disruptions, and new working guidelines for construction activities. Moreover, other challenges faced by the hospitality sector during the pandemic, such as operational restrictions, travel bans, and other uncertainties in the market, have forced some hotel operators to suspend their opening dates indefinitely. Other operators have pushed back their target completion to a later year.

### MARKET TRADE UNDER NEW NORMAL

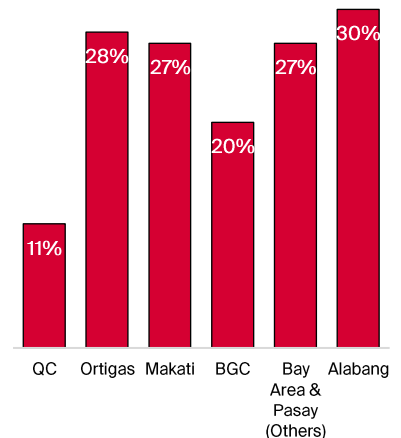
The pandemic has undeniably advanced new trends in the hospitality

Figure 11  
**Average Occupancy Rate per CBD (GCQ)**



Source: Santos Knight Frank Research

Figure 12  
**Average ADR Discount Offered per CBD (GCQ)**



Source: Santos Knight Frank Research

sector. The duration of such changes, however, remains uncertain, and will be highly dependent on the development of an effective and accessible COVID-19 vaccine.

HOSPITALITY RESEARCH

The use of digital platforms has been giving the tourism and hospitality sector a boost and will open more opportunities in the future. The use of online booking platforms and contactless payments provides safer and more convenient transactions during the post-pandemic.

As tourists remain cautious of the health crisis, they will give preference to small group but high-value experiential travel. Outdoor activities such as road trips and sun and beach will be popular among tourists.

Hotels will be subjected to health and safety protocols such as thermal scanning, social distancing measures, maximum of double occupancy rooms, and provision of sanitation kits to guests.

OUTLOOK

In terms of recovery, leisure demand has the potential to restart the industry. Domestic travelers are seen to engage in short travel distances, such as traveling to neighboring cities or provinces, and eventually going farther distances as travel becomes mainstream again. However, demand for leisure travel will be highly dependent on the travel restrictions and

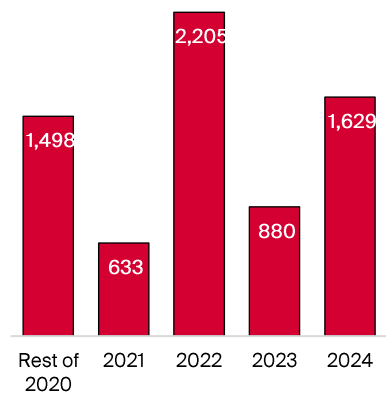
quarantine status of the respective LGUs of destination. Also, taking into account the associated risks from the virus, engaging in leisure travel will be subject to the discretion of the individual travelers. For international leisure tourists, travel restriction from the country of origin will also be an additional factor.

Likewise, demand for business travel will remain uncertain depending on the travel restrictions as well as the financial capabilities of the companies. Recovery will be much slower in areas with stricter quarantine than MGCQ as only those employees from exempted establishments, such as government offices, are allowed to travel. Moreover, processing and securing of documents, such as travel passes, will take significant of time and effort.

MICE operations are strictly prohibited in ECQ, MECQ, and GCQ areas, but have the option to conduct events via online platforms where no physical interactions are involved. However, physical MICE events will be allowed in areas under MGCQ, provided that they will be limited to 50% of the maximum venue capacity.

Despite some drastic effects of the pandemic to

Figure 13  
Upcoming Hotel Supply  
(in Number of Rooms)



Source: Santos Knight Frank Research

the local hospitality sector, some destinations in the country are still receiving international recognition. Forbes included the Philippines in its nominal list of top tourist destinations post-COVID-19. The list, which included six other countries in the different parts of the world, featured the cities of Manila and Quezon in Metro Manila as destinations for those who want to experience mainstream Filipino culture. Those tourists looking for beach destinations may try Palawan and Boracay.

Palawan has been recognized by two other international travel

Continued in page 23...



## INDUSTRIAL RESEARCH

# Online Business Drives Industrial Market

## Bolstered Industrial Sector under Supply Chain Stress Test



With the major downturn of the Philippine economy brought about by the months-long quarantine and other directives designed to curtail the spread of COVID-19, the industrial market similarly suffered. Albeit the overall gloominess, the continued growth of E-Commerce presents itself as a silver lining that could pose as a trend with the current situation and well into the coming years. From mere individuals selling the family's secret recipes to well-known clothing and apparel store like Uniqlo launching their own webstore, more and more are adapting to the

underused world of the internet in a bid to reach more consumers. The COVID-19 pandemic that crippled the country has now served as a catalyst in speeding up its digital evolution.

No less than the Trade and Industry Secretary Ramon Lopez expects that more than 2% of the overall domestic retail purchases will be done via the internet. With a population of over 110 Million where around 70% or 76 Million of which are active internet users, the Philippines has a huge potential to be one of the leading online markets in Southeast Asia. As online

retail continues to grow and gradually becomes part of our daily lives, the government has listed E-Commerce as one of the 12 priorities in its inclusive and innovative led industrial strategy that aims to have the country cope up with the fourth industrial age.

### EFFECTS OF THE QUARANTINE DIRECTIVES

As E-Commerce grows, the country's business groups have urged the government to implement a moratorium on fees and charges, amid the Enhanced Community Quarantine (ECQ) last April, along with a call to improve logistics efficiency and lower costs as some shipments are stuck at the ports. This resulted to the Philippine Ports Authority's deferment for the collection of fees and rent for 30 days while the CPA Board of the Cebu Port Authority has declared a moratorium on the payment of berthing fees and anchorage fees for domestic ships; and permit fees/ rentals for port concessionaire spaces, stalls, booths, check-in

INDUSTRIAL RESEARCH

counters and other similar commercial spaces.

The ECQ also hampered supply chain systems among manufacturers in the country. Faced with movement restrictions, a surge in demand for stocked up food products was also recorded in March and April. The slow delivery of supply as well as a sudden jump in demand has put pressure on the supply chains of manufacturers. As the ECQ transitions into General Community Quarantine, restrictions for travel and delivery of goods are eased providing the necessary relief for the burdened supply chain systems of manufacturers.

WAREHOUSE LEASE RATES

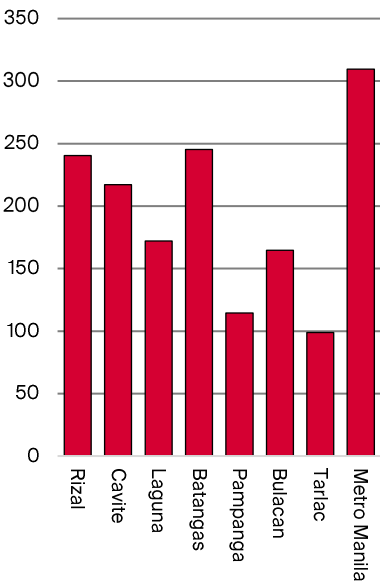
With available land within Metro Manila getting scarce, most warehouse storage and other industrial spaces have been moved into the surrounding provinces of Bulacan, Pampanga and Tarlac in the North, Rizal in the East and Cavite, Laguna and Batangas in the South. All provinces are linked with the metropolis through a vast network of expressways and major roads to ensure supplies and other raw materials, as well as the workforce are

able to travel as quickly and safely as possible.

That being said, securing a warehouse storage space within Metro Manila still has its own advantages over those located in the outlying areas. Thus, warehouse storage prices in the metropolis are considerably more expensive. Warehouses within Makati have been recorded to have the highest lease rates so far at a weighted average of Php570 per sqm per month while those located near the boundaries of the Metro in the north, Valenzuela, are pegged at a weighted average lease rate of Php190 per sqm per month.

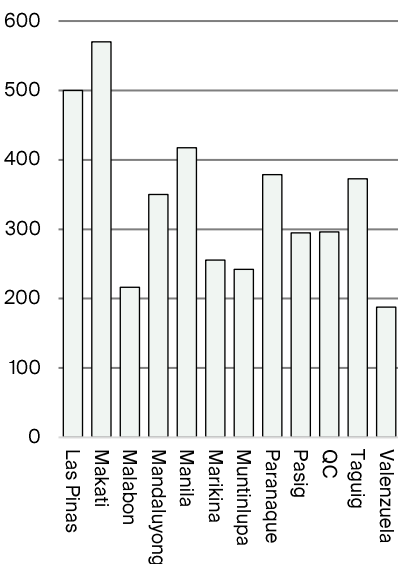
Down South, the weighted average lease rate of storage spaces in warehouses for Cavite, Laguna and Batangas ranges from Php170 - Php250 per sqm per month. Several of the industrial estates in the south, particularly in Laguna and Batangas, can be found near the South Luzon Expressway (SLEX) and the Southern Tagalog Arterial Road (STAR) which connects all the way to the Batangas International Port, a major trading port of the country. Industrial locators in Cavite and Laguna also enjoy better connectivity with the recent

Figure 14  
Weighted Average Lease Rates per Area (in Php/sqm/mo.)



Source: Santos Knight Frank Research

Figure 15  
Weighted Average Lease Rates in Metro Manila (in Php/sqm/mo.)



Source: Santos Knight Frank Research

## INDUSTRIAL RESEARCH

opening of the Cavite-Laguna Expressway (CALAX). CALAX is expected to boost the economic growth of both provinces as well as improve the area's logistics in a bid to accommodate their growing population and businesses.

Up North, warehouse storage spaces in Bulacan, Pampanga and Tarlac have a weighted average price ranging from Php100 – Php170 per sqm. The North Luzon Expressway (NLEX) provides direct access to these areas coming from Metro Manila. Huge infrastructure projects are currently underway to better link the northern provinces to the metropolis

and to each other. The Port of Subic Bay as well as the Clark International Airport serves as the main gateways and trading ports in the area.

### FUTURE DEVELOPMENTS

Aboitiz Land will be embarking to expand LIMA Township in Batangas to further its industrial expansion and transform it into a fully integrated mixed-use development and major business district outside of Metro Manila. Already existing aside from

the Lima Technology Center (industrial estate) is the Lima Exchange which serves as its central

integrated hub and the Outlets at Lipa which serves as its main retail facility. Ongoing development is The Villages at Lipa which is a residential project.

Double Dragon, on the other hand, has adjusted its growth targets as a consequence of the challenges brought about by the COVID-19 pandemic. From its original date of 2020, the company now targets to reach a total leasable portfolio of 1.2 Million sqm by 2022 of which 100,000 sqm of industrial space is allocated for its various Central Hub sites scattered in Luzon, Visayas and Mindanao. 🇵🇭 🇻🇪 🇲🇵





## CONTINUATION OF RESEARCH ARTICLES

### RETAIL RESEARCH



discovered. Dampened consumer confidence is seen to continue because of the after effects of the virus and the resulting became more prevalent inside malls. Also, large pandemic which led to the lack of spending power. Downscaling and closure of businesses resulted in the rise of local unemployment as well as repatriation of Overseas Filipino Workers (OFW), the main sources of domestic spending.

There is a glimmer of hope that the retail sector and other sectors as well are

bound to turn for the better as several countries such as US, China, and other countries in Europe, rush to develop a cure for the virus. In the meantime, we should try to adapt to the current situation and find a way to gain the confidence to move on. Otherwise, we can only expect the situation to get worse. A well concerted effort between the government and the private sector would be key to re-establishing this confidence and building the momentum to move forward. 🇵🇭 🇨🇵

### HOSPITALITY RESEARCH

publications. El Nido's Hidden Beach took the 20th spot in Condé Nast Traveller's "The 30 Best beaches in the World." The island province has also been voted as the best island in the world in 2020 by the readers of travel publication Travel + Leisure. This marks Palawan's fourth time winning the same award since first receiving it in 2013.

Citations such as those mentioned will help the distressed industry recover post-pandemic. Moreover, DOT is ramping up its efforts to revive the industry by gradually reopening domestic tourism as well as helping hospitality stakeholders through various financial recovery plans. With the emerging challenges and trends in the sector, it is important now more than ever that hospitality players pivot their properties to new opportunities. 🇵🇭 🇨🇵

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