Metro Manila Office Market Update

Emerging Trends Highlight Continued Resilience

Q2 2022

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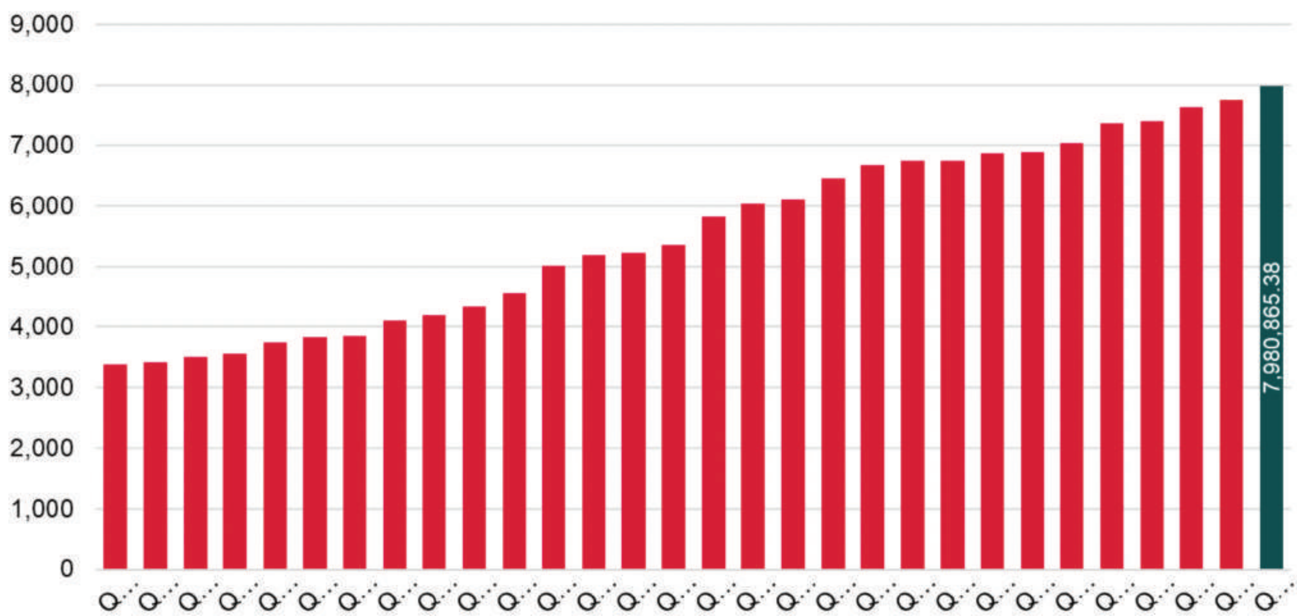
General Overview

The Metro Manila office market continues to underperform in Q2 2022. Although the metropolis has been at the most lenient alert level since September 2021, the office market performance still veered downward. Despite this, developers are keen on pushing through with their office developments as new buildings materialized this quarter. Office supply grew by 228,538 sqm of Grade A buildings located in Makati, Fort Bonifacio, Alabang, and Bay City. This pushed the overall supply to 7.98 million square meters.

Due to the influx of supply, vacancy levels increased to 22.69%, another record high since 2009. The factors that affected the rise in vacancy levels are still the same as in the previous quarters. The hybrid work arrangement continues to impact on the increase in vacancy levels. In addition, IT-BPO operators are working remotely to meet employee demands and cut operational costs. Also, delays in leasing decisions of occupiers contributed to high vacancy levels. Occupiers decide whether to sign short- or long-term renewal agreements depending on their assessment of the current market condition. Close to 82,000 sqm of office space were vacated this quarter. There might be a semblance in the return of the POGOs as groups of Chinese nationals can be noticed in a few buildings located in the Bay Area. But the number of these Chinese nationals now are nowhere near the numbers during the years before the pandemic.

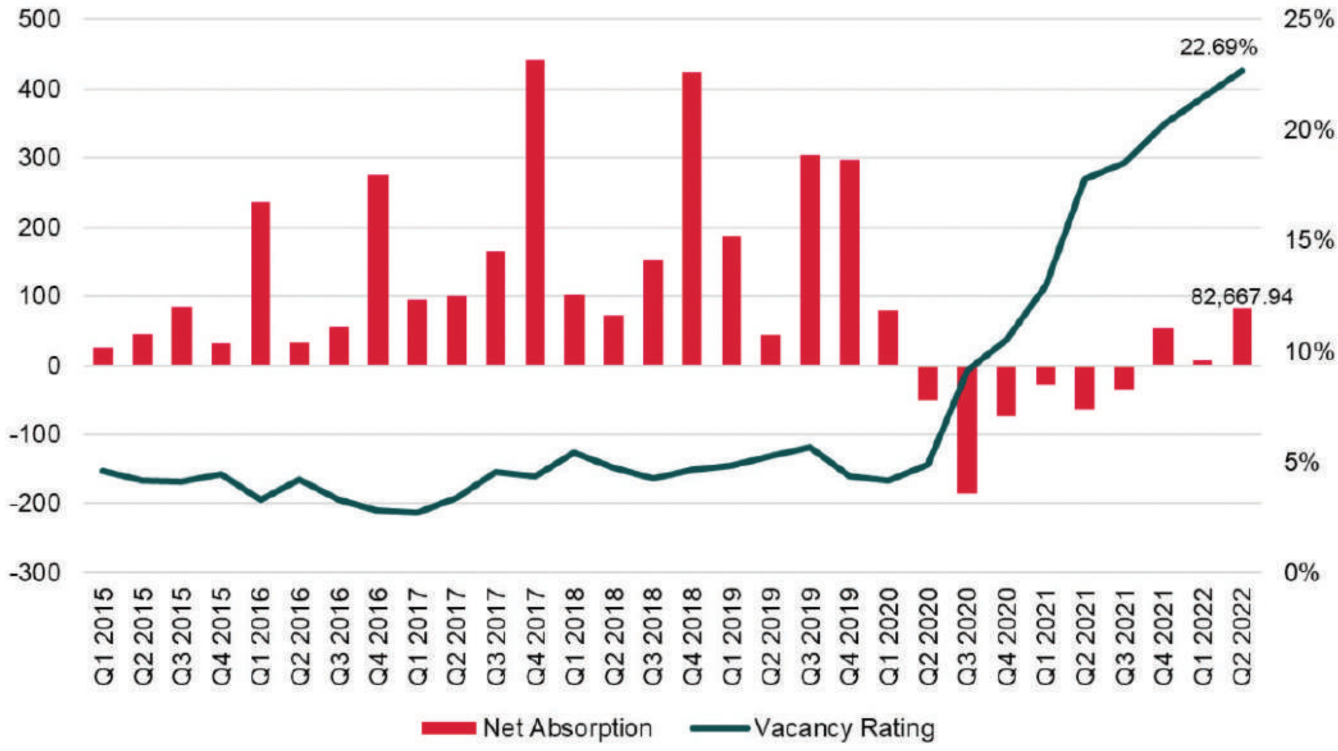
The asking rents and rent growth slightly improved despite increasing vacancy levels. The monthly weighted average lease rates in Metro Manila rose to PhP 1,089.20/sqm translating to an increase of 0.68% quarter-on-quarter (q-on-q) and contracting by 1.03% year-on-year(y-o-y). The increase in lease rates was highly attributed to the additional supply though landlords still offer flexible payment terms for potential locators and occupiers.

Figure 1. Metro Manila Historical Office Supply



Source: Santos Knight Frank Research

Figure 2. Metro Manila Historical Lease & Vacancy Rates



Source: Santos Knight Frank Research

Makati

Makati showed minimal improvement in Q2 2022 as the vacancy rate decreased to 23.86% from 24.38% in the preceding quarter. In addition, growth in demand is observed with a recorded take up space of 68,490 sqm. Office buildings were also completed this quarter, in which an additional supply of 80,958 sqm pushed the total office supply to 1.39 million sqm. In line with this, occupiers are returning due to easing restrictions, return to office protocols, and high vaccination rates.

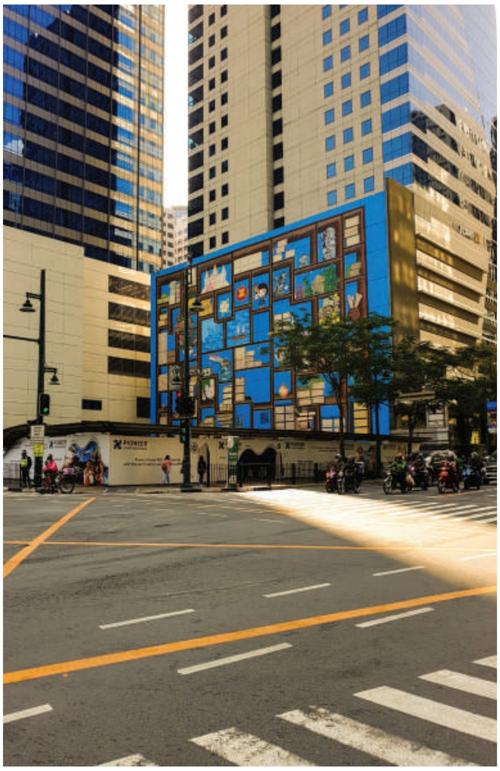
The monthly average lease rates slightly decreased by 0.40% q-o-q to PhP 1,344.73/sqm though it remains to have the highest lease rate in Metro Manila. Prices remain to be competitive due to accessibility and prime location.

With the eased mobility and non-recurrence of COVID surges, developers have continued to expand their footprint in which an additional 93,741 sqm of office space expected to be turned over from the completion of the Stiles Enterprise Plaza East Tower and Gentry Corporate Plaza by Q3 2022. While an additional 242,660 sqm of office spaces are expected to be completed and turned over in the next three years.

Fort Bonifacio and ARCA South

The Fort Bonifacio office market grew in Q2 2022 with the completion of Worldwide Plaza and Park Triangle Corporate Plaza. This resulted in an increase in the supply in the area to 2.2 million sqm. Due to the influx of newly built supply, the vacancy rate increased to 18.56% from 15.45% in Q1 2022. However, the market showed an improvement in demand with a recorded space take up of 25,617 sqm. This improvement affected the prices as monthly rental rates in the area rose to PhP 1,282.20/sqm translating to a 1.44% increase q-o-q.

Furthermore, the district's competitive environment has benefited the office market as it is a desired destination for multinational and local firms. Moreover, an additional supply of 862,879 sqm Grade A office space is lined up for the next three years, of which about 344,000 sqm of office space will be coming from ARCA South, a 74-hectare business and lifestyle district currently being developed.



Bay Area

The Bay Area is known as the business district that hosted most of the POGO industry. But due to travel restrictions, regulatory issues and taxes imposed, these offshore gaming operators ceased operations. The decreased activity in the area persisted in Q2 2022 and pushed the vacancy rate up to 25.81%. The completion of One Wheels Condominium with an additional 28,880 sqm of Grade A office space contributed to the increase in vacancy level. Landlords continue to struggle in finding tenants to fill up their vacant spaces and remain competitive in the area.

The decreased activity likewise pulled monthly lease rates down to PhP 1,077.17/sqm, translating to a contraction of 1.94% q-o-q. Despite this, developers are still pushing through with their projects as the district is known for its accessibility and availability of developable land. Approximately 464,414 sqm of Grade A office supply are anticipated to come online in the next three years with, 210,547 sqm of office space to operate by the end of the year.

Ortigas Center

Though there were no new office buildings completed in Q2 2022, the Ortigas' office market showed minimal improvement in demand with a recorded space take-up of 4,985 sqm this quarter. In line with this, vacancy levels decreased to 24.57% from 24.91% in Q1 2022. Average monthly lease rates increased to PhP 817.86/sqm indicating a growth rate of 1.04% q-o-q. Rates have remained the lowest compared to other business districts, making it an ideal destination for prospective locators in need of good space with tighter budgets.

Several developers are still looking forward to the completion of their projects in the pipeline. Approximately 208,685 sqm of Prime and Grade A offices will be introduced into the market by the end of the year, such as One Filinvest, The Exchange Square, and Corporate Finance Plaza. Moreover, 413,698 sqm of office space will be operational in the next three years.

Quezon City

The vacancy level in Quezon City slightly improved in Q2 2022 with a space take up of 4,436 sqm. The vacancy rate slightly eased to 20.52% from 20.89% in Q1 2022. Also, the average monthly lease rate rose to PhP 876.75/sqm up by 0.05% q-o-q from phP876.33/sqm in the preceding quarter.

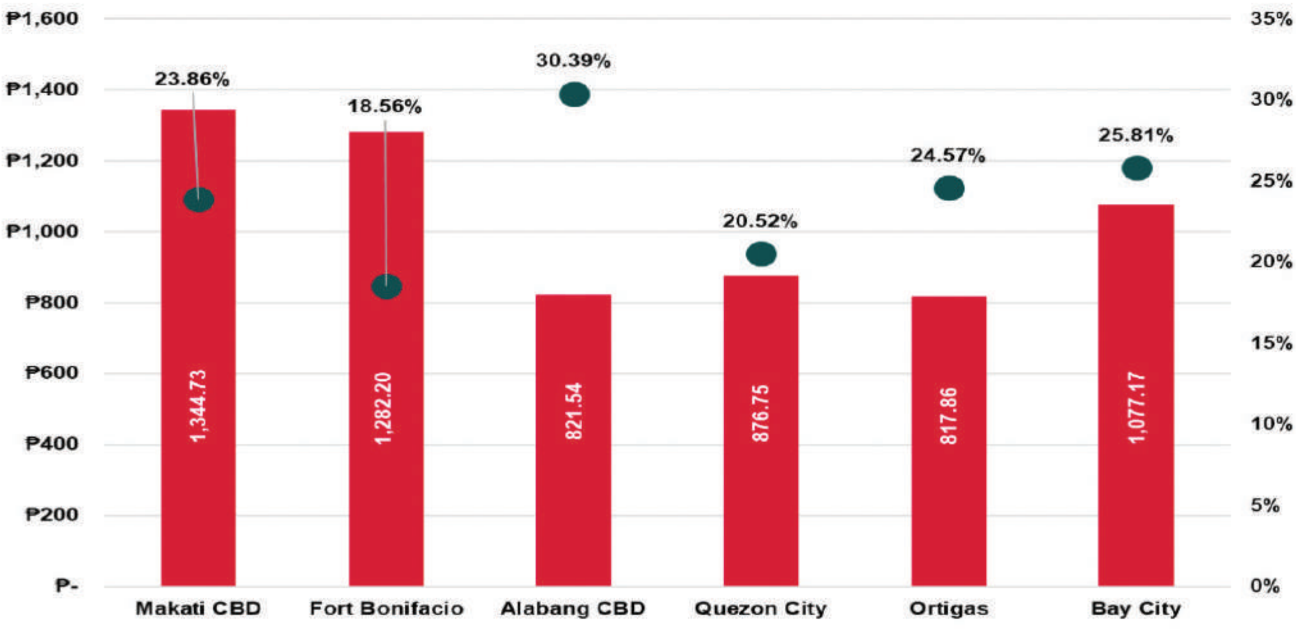
Developers continued to expand their footprint as approximately 119,751 sqm of Prime and Grade A office spaces are expected to be completed by the end of the year. While 373,493 sqm are anticipated to operate in the next three years. Upcoming developments will spur supply growth, particularly in Northern QC. With the expected completion of new office buildings and low demand, vacancy levels may continue to increase.

Alabang

The vacancy rate in Alabang rose to 30.39% from 22.59% in Q1 2022 the highest in Metro Manila. The completion of 1210 Acacia contributed to the increase, which added 5,825 sqm. Also, the decline is due to the pre-termination of leases that mostly came from IT-BPO companies as most of them adopted a hybrid work arrangement. Furthermore, increased vacancy level caused a decline in the monthly weighted average lease rates by 0.72% during the quarter at PhP 821.54/sqm for landlords to shed the available office supply on the market.

Despite the downward trend, opportunities for growth are still present as developers are keen on pushing through with their office projects in the area due to accessibility and infrastructure developments. An estimated 223,483 sqm of office supply is anticipated to operate in the next three years, of which 81% will be coming from Filinvest Land Inc.

Figure 3. Metro Manila Lease and Vacancy Rates per CBD



Source: Santos Knight Frank Research

Office Outlook

The easing of restrictions, high immunization rates, and non-recurrence of COVID surges during the second quarter of 2022 has seen an improvement in several districts in terms of vacancy rates and net absorption. However, looking at the office market as a whole, the performance is still on a downward trend. The additional office supply of 228,538 sqm has pushed the vacancy levels to 22.56% higher than the preceding quarter. This trend is expected to continue as the Metro Manila office market is slated to see an additional 813,092 sqm by the end of the year. While approximately 1,932,472 sqm of Prime and Grade A office space is anticipated to come online in the next three years.

Real Estate Investment Trusts (REITS) have grown in popularity as it boost the developers' working capital and provide investors with an alternative investment option. This is apparent given that five REITS were introduced to the market during the pandemic. Recently, an additional REIT from Vista Land debuted last June 2022.

Demand is also seen for green buildings as more foreign investors, BPOs, and data centers come in. The pandemic boosts the developers' interest in redefining office spaces and develop innovative and sustainable office buildings. In addition, this trend is one of the byproducts of the pandemic as locators are inclined to take up spaces that consider the health of employees.

Lastly, with the amended Republic Act No. 11647, foreign investors are expected to start and expand their businesses in the country. Given the low startup costs, bountiful resources, well-developed communication and transportation, the Philippines remains an attractive market for international players. These trends, combined with the office market's improvement and resumption of office use, will be the primary drivers of the recovery of the office market.

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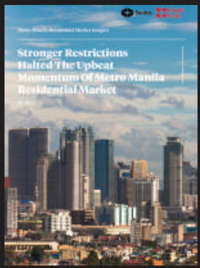

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