Metro Manila Office Market

Sustainability on the Rise Despite Challenges

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Q3 2022

General Overview

Despite the continued relaxation of restrictions, improved mobility, and employees returning to the office in the latter half of 2022, the office market continues to face headwinds from both global and local market factors. The market continues to reel from the effects of the pandemic and more recently the continually rising inflation rate.

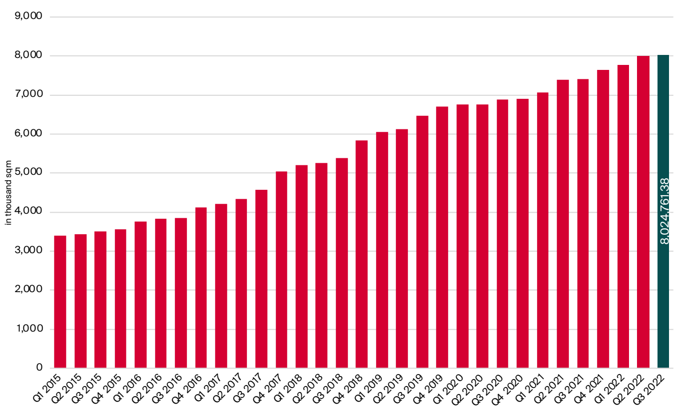
However, the Metro continued to expand, with 24,500 square meters of office space turned over during the period. This came by way of the completion of Manta Corporate Plaza, located in Arca South. This pushed the overall supply to approximately 8.02 million square meters.

With the additional supply, vacancy levels throughout the Metro increased to 21.93%, another record high since 2009. Vacancy has been steadily increasing as some major office space occupiers continue to "right size" their space requirements because of the significant savings attained by allowing their employees to work from home or offsite. This continues to be evident in the IT-BPM sector which comprises the bulk of the office space occupiers.

In addition, the construction materials wholesale price index in the NCR increased to 11% in October 2022 from 10.5% in the previous month. The rising cost of construction materials can be partially attributed to the depreciating value of the Philippine Peso. The weakening of the Philippine Peso would automatically translate into a price increase as a substantial amount of construction materials are imported. Construction activity may be slowing, but a surge in office supplies is expected by next year upon completion of the ongoing office developments as developers rush to complete projects which have broken ground to avoid further losses from increasing construction costs.

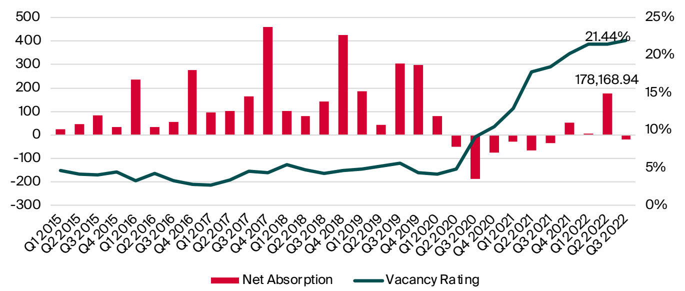
Despite rising vacancy rates, asking rents remain elevated as the weighted average lease rates in Metro Manila increased to PHP 1,090.10 per square meter per month, a slight increase of 0.08% q-on-q and a contraction of 0.47% y-on-y. Landlords remain optimistic of the market but are more than willing to give special concessions to retain existing as well as secure new tenants.

Figure 1.
Historical Office Supply in Metro Manila



Source: Santos Knight Frank Research

Figure 2.
Metro Manila Historical Lease & Vacancy Rates



Source: Santos Knight Frank Research

Makati

Though there were no new buildings completed in Q3 2022, the vacancy rate in Makati rose to 24.39% from 23.42% in the preceding quarter. Despite this, Makati remains to have the highest average lease rate in the market which slightly increased to PhP 1,341.46/sqm/month during the period. Its prime location and accessibility strengthen its position as the prime Central Business District thereby justifying said lease rate.

Several developers are still looking forward to the completion of their projects in the pipeline. Approximately 168,000 sqm of Grade A offices will be introduced into the market by the end of the year, such as Altaire, Filinvest 387, and The Index. Moreover, 242,660 sqm of office space will be operational in the next three years.

Fort Bonifacio/ARCA South

The Fort Bonifacio / ARCA South office market grew in Q3 2022 with the completion of Manta Corporate Plaza in ARCA South. This resulted in an increase of the supply in the area to 2.27 million sqm. Due to the influx of supply, the vacancy rate increased to 15.80% from 15.35% in Q2 2022. Moreover, the market showed an improvement in demand with a recorded space take up of 10,605 sqm. This improvement affected the prices, as the monthly rental rates in the area rose to PhP 1,288.42/sqm/month, translating to a growth of 0.48% q-o-q.

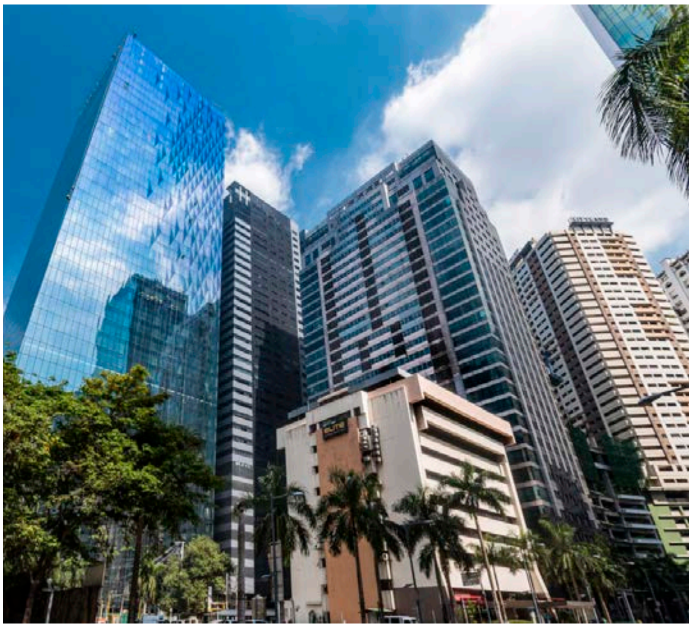
Furthermore, the district's competitive environment has benefited the office market as it is a desired destination for foreign and local firms. An additional Grade A office supply of approximately 813,000 sqm is lined up for the next three years, of which about 36% will come from Arca South.

Bay Area

The Bay Area office market continues to be challenged as the supposed revival of the POGO industry never materialized. The district showed slight improvement as vacancy levels eased to 25.73%. With the vast Grade A office space available, landlords are continually looking for new tenants to fill up their vacant spaces to remain competitive in the market.

A slowdown in demand was recorded in the Bay Area with the average lease rate dropping to PhP 1,068.43 per square meter per month, a contraction of 0.81% q-o-q. Despite this, developers are still pushing through with their projects. By the end of the year, approximately 210,500 sqm of Grade A office space will be operational. Around 250,0000 sqm of additional office space is expected to be operational over the next three years.

Ortigas Center



The vacancy levels of the Ortigas' office market increased to 25.44% from 24.57% in the preceding quarter. This indicated a decreasing demand f or space in the districts no new office completions were recorded during the period. This is expected to increase as approximately 208,600 sqm of office space will come online by the end of the year.

However, lease rates increased to PhP 822.04/sqm/month, indicating a growth of 0.51% q-o-q. Opportunities for growth are still present, as developers are keen on pushing through with their office projects in the area with the expected improvement in accessibility once the Metro Manila Subway is completed. An estimated 480,600 sqm of Prime and Grade A office supply is anticipated to operate in the next three years through Sunrise Ortigas, Hudspace, and Two Paseo.

Quezon City

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Alabang

The office market of Alabang showed minimal improvement in demand, with a recorded space take-up of 4,533 sqm in Q3 2022. The vacancy levels decreased to 25.03% from 25.95% in Q2 2022. However, lease rates decreased to PhP 812.05/sqm/month a contraction of 1.15% q-o-q. Rates have remained the lowest compared to other business districts, making it an ideal destination for prospective locators.

Several developers are still looking forward to the completion of their projects in the pipeline. Approximately 223,000 sqm of Grade A office space will be introduced into the market over the next three years, of which 80% will be coming from Filinvest Land Inc.

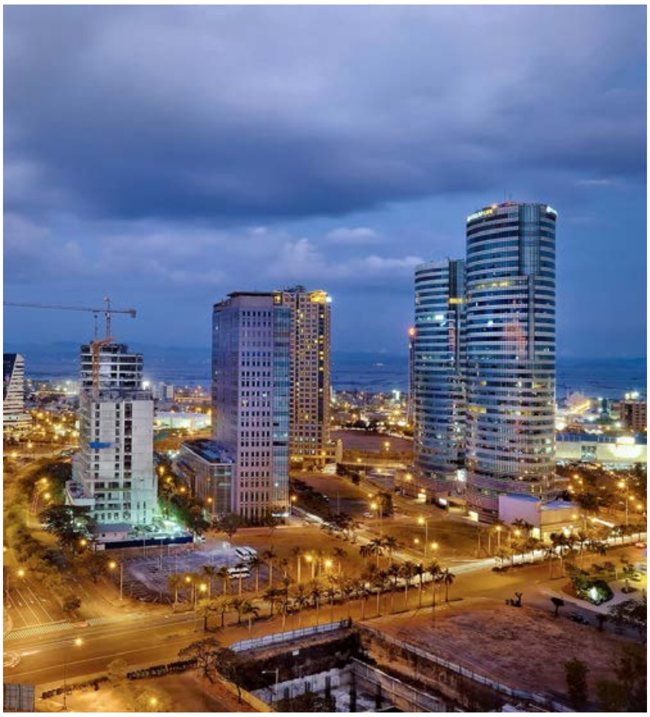
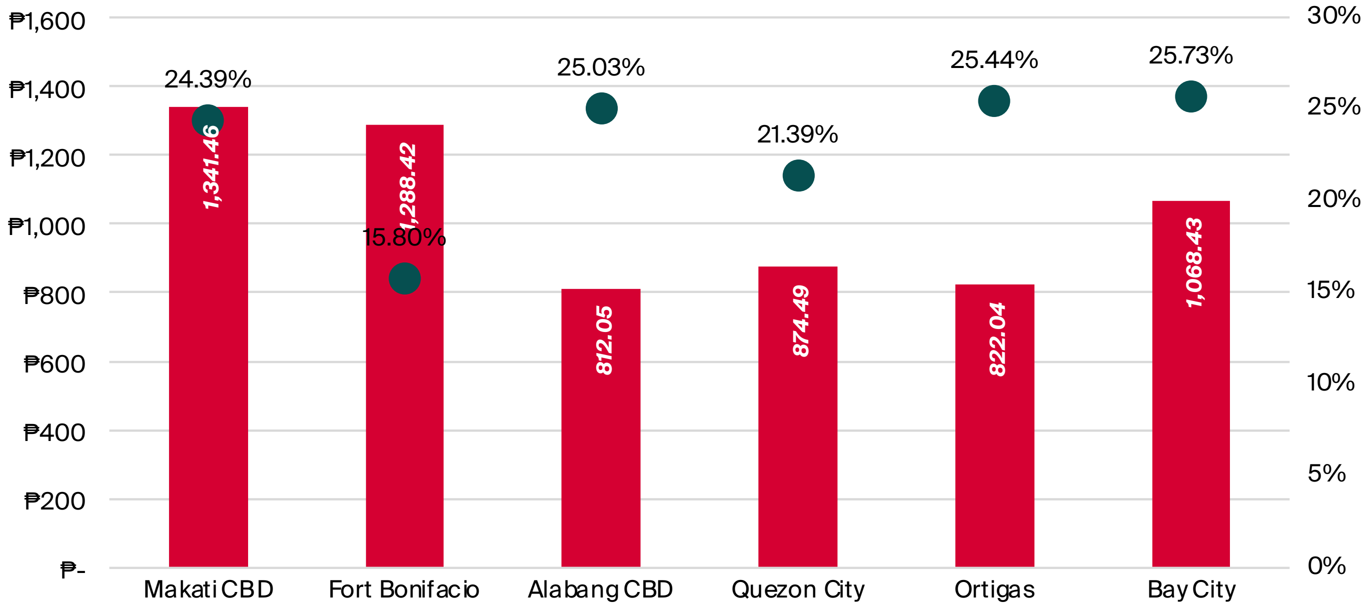


Figure 3.
Metro Manila Historical Lease & Vacancy Rates per CBD



Source: Santos Knight Frank Research

Office Outlook

The IT-BPM sector will remain the top demand driver for the office space. The sector has exceeded its goals for 2022 with 1.43 million regular employees and has generated USD 29.1 billion in revenue. However, a significant number of these employees are either working from home or offsite as allowed by the Fiscal and Incentives Review Board (FIRB). This is seen to put pressure on the office market as the IT-BPM sector accounts for a substantial portion of the total office occupiers.

Green buildings will continue to be the preferred buildings for office occupiers but will evolve and be designed with heightened consideration for the well-being of the occupiers and the environment. These buildings will be equipped with cutting-edge design and technology that will incorporate sustainable features such as energy efficiency and minimized environmental impact. In addition, incorporation of health and wellness features with the use of advanced air exchange and filtration systems, contactless technology and the like will become the norm.

The expected improvement in the office market by the easing of health restrictions was offset by local and global economic downturn. Recovery in the sector will be hinged on the rate of recovery of both the local and global economy.

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