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Philippines Real Estate Outlook 2024

Growth Paths

New paths and opportunities

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The Philippine real estate market presents diverse opportunities for 2024, fueled by a strong economic performance and changing market trends. The notable catalyst in this trajectory has been increased public spending, prominently visible by the third quarter of 2023. Government initiatives aimed at infrastructure development and urban renewal create ripe opportunities for real estate development, particularly in the areas adjacent to these new projects. Developers stand to benefit from rising demand for real estate spaces, while landlords can benefit from higher rental yields as these areas become more desirable.

Moreover, these projects generate new employment opportunities, further boosting the demand for housing and driving business activities, resulting in higher occupancy levels in the commercial sector. The government's efforts to alleviate traffic congestion and promote connectivity is expected to boost the tourism market's recovery, especially as travel confidence rebounds.

The Bangko Sentral ng Pilipinas reported that residential property prices witnessed a notable 12.9% increase in the third quarter of 2023, primarily attributed to single detached and attached houses outside the National Capital Region. This growth signals shifting preferences and growth potential for market expansion beyond Metro Manila. Communities and townships offering a blend of residential living with educational, commercial and leisure facilities are poised to benefit from the growing demand for residential properties outside the capital.

The office sector in the key areas monitored in the last quarter of 2023 experienced vacancy levels averaging between 11% to 35%. With more companies implementing full return-to-office and partial office work, the gradual rise in demand for office spaces presents promising prospects for rents and vacancy levels to stabilize in 2024.

Meanwhile, there is an increasing interest and development in growth cities, driven by continued expansion of the business process outsourcing (BPO) industry. Cities like Dumaguete, for instance, outperformed office take-up in traditional central business districts (CBDs) like Cebu and Metro Manila. The appeal of these emerging cities is attributed to low operational and investment costs, including affordable land, rent, talent, and living expenses. Coupled with investment incentives from PEZA and BOI, these factors present an appealing opportunity for developers and landlords looking to capitalize on real estate investments in these emerging business hubs.

Read the full article

Additionally, the concept of working in one's hometown has likely appealed to some talent pool, seeking proximity to family and a more relaxed working environment, free from the challenges of urban commuting. A study done by Cisco showed that office development and transformation promoting a collaborative and social working environment is favored by employees returning to the office. It was further reported that more than half of the Philippine employers anticipate their workforce to adopt hybrid work arrangements within the next two years. Therefore, creating appealing office spaces stand to benefit landlords and developers in the years ahead.

Retail spaces across the markets monitored during the third quarter of 2023 maintained robust occupancy levels, maintaining an average of 90%. However, it is worth noting that in the Paranaque - Pasay Bay area, only super-regional malls performed at levels closer to the industry average. This observation suggest opportunities for landlords and developers to expand their retail portfolios and indicate the market's capacity to accommodate modest rent hikes.

The hospitality market holds promising prospects for real estate developers and landlords as occupancy near pre-pandemic levels. This trend is particularly evident in key areas such as Makati CBD and BGC, where average property occupancy rates stood at 74% and 89%, respectively. Moreover, ambitious infrastructure developments aimed at improving inter-island connectivity are poised to fuel growth in the hospitality sector. Foreign arrivals have been on the rise; the Philippine Travel Agencies Association reported that actual foreign arrivals outperformed initial targets for 2023 with an impressive 4.88 million visitors from January to November 2023 alone. As the Philippines opens its doors to more visitors, the expected 7.7 million international tourists in 2024, underscores the positive outlook for real estate developers and landlords operating in the hospitality sector.

The Philippine real estate market is poised for a transformative year in 2024. Changing market dynamics stand to benefit landlords and developers to venture outside the typical CBDs with a rising demand in housing and office spaces outside Metro Manila. The retail sector's resilience, demand for collaborative and social office spaces and the rebound of hospitality add to the optimistic outlook, the real estate sector remains at the forefront of these dynamic changes.

The office-first strategy

Across the world, 81% of occupiers intend to adopt an office-first strategy. Most of them are returning to the office in a hybrid setup.

The shift from traditional to hybrid work has impacted the office market, with available space increasing from 4% at the start of 2020 to 26% by the end of 2022. This signaled a slowdown in leasing as businesses adjusted to the evolving work landscape.

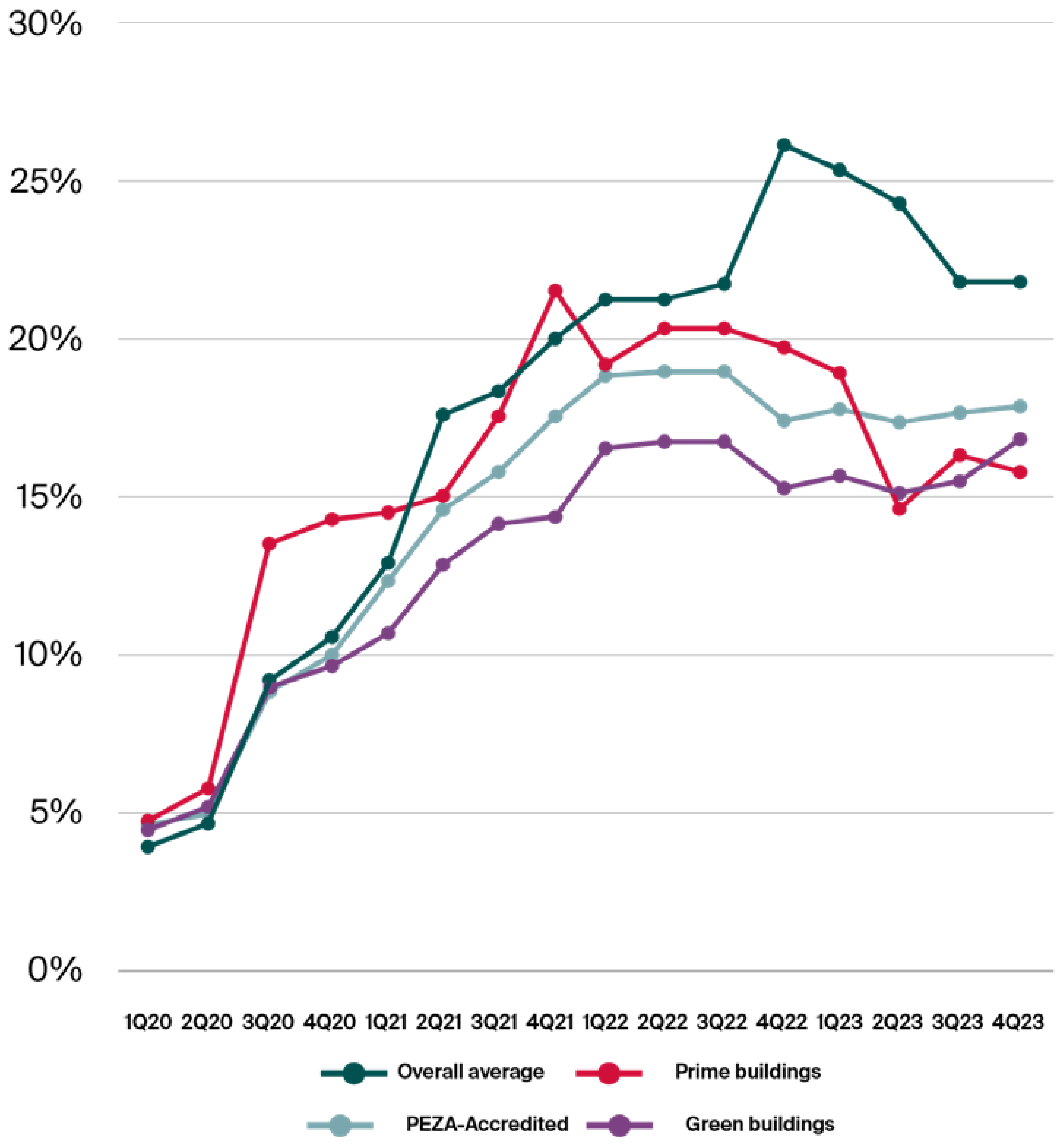
Post-pandemic, the ongoing debate over optimal work arrangements is converging towards an agreement: the office-first-hybrid strategy -- in-person, collaborative work in a traditional office setup.

Because employees favored flexibility and reduced commute time, return-to-office policies birthed the hybrid workplace concept as a viable alternative. Now, organizations are exploring an "office-first" hybrid work environment that combines flexibility with face-to-face interactions.

Knight Frank's (Y)our Space report indicates that 81% of surveyed global businesses plan an office-first strategy. At the same time, 56% are pursuing a hybrid model, aiming to balance remote flexibility with in-person collaboration for their 10 million employees.

Read the full article

Metro Manila ended 2023 with a vacancy of 22%. Prime, PEZA-accredited, and green-rated offices still performed significantly better than the market average. Although a particular premium office building can fall into all of the three classifications mentioned, a comparative analysis of the category averages reveal that prime offices and green-rated buildings had the best performance in the last three quarters of last year.



Metro Manila office

Alabang
Php 863/sqm
712K total office stock

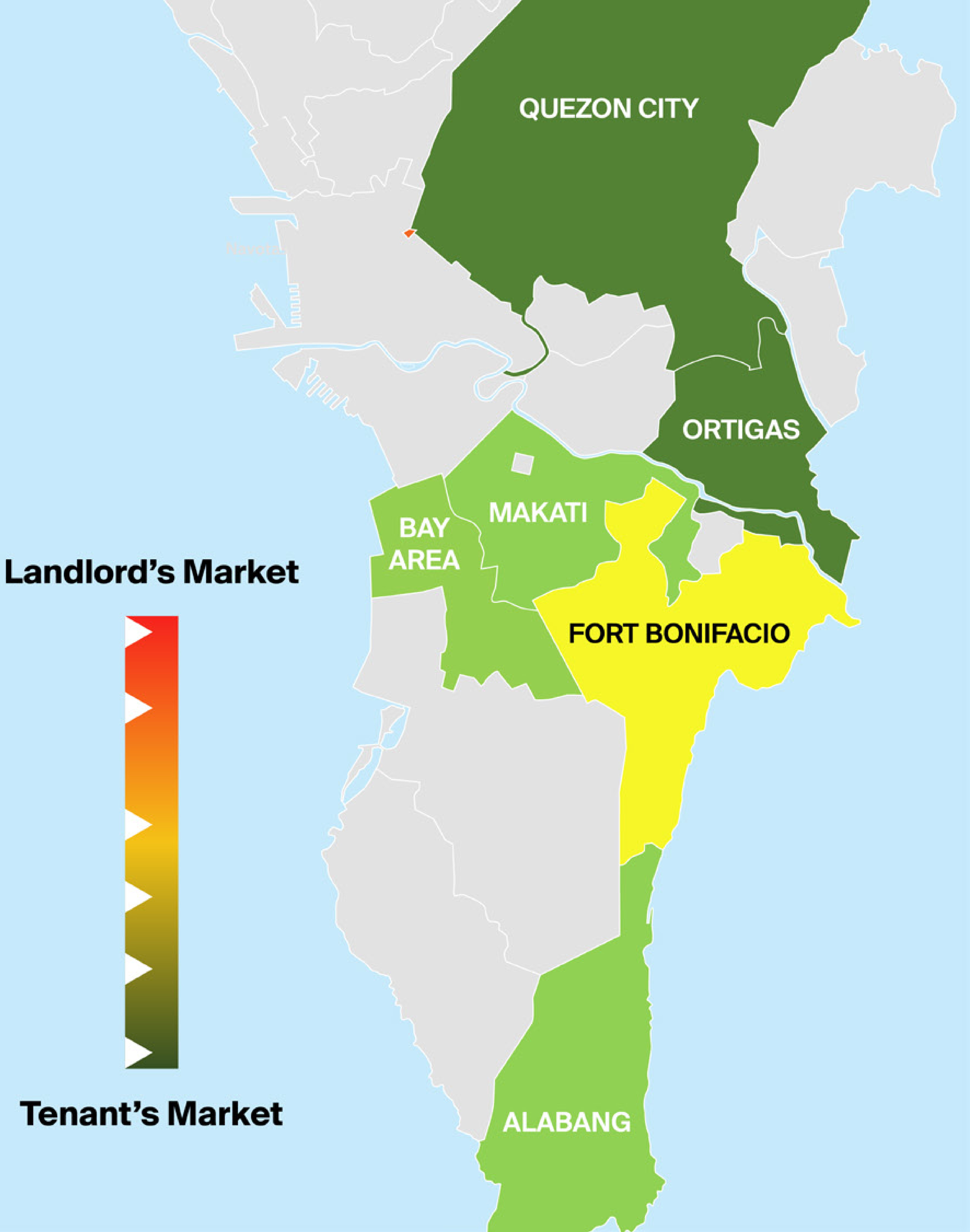
Makati
Php 673/sqm
673K total office stock

Bay Area
Php 902/sqm
1.2M total office stock

Ortigas
Php 854/sqm
1.3M total office stock

Fort Bonifacio
Php 1098/sqm
2.84M total office stock

Quezon City
Php 809/sqm
1.8M total office stock



Workplace reimagined

In Asia Pacific, 51% of occupiers plan to enhance the quality of their office space – a significant increase from 37% two years ago.

Despite the return-to-office movement across the Philippines, a JobStreet report said 28% of surveyed Filipinos still favor fully remote setups. Facing reluctance from employees, occupiers have crafted strategies to entice people back to the office.

One is through innovative workspaces that create an optimal work environment. Knight Frank's (Y)our Space report showed 51% of Asia-Pacific occupiers are expected to enhance the quality of space within their portfolios—a 37% increase from the survey reported two years prior.

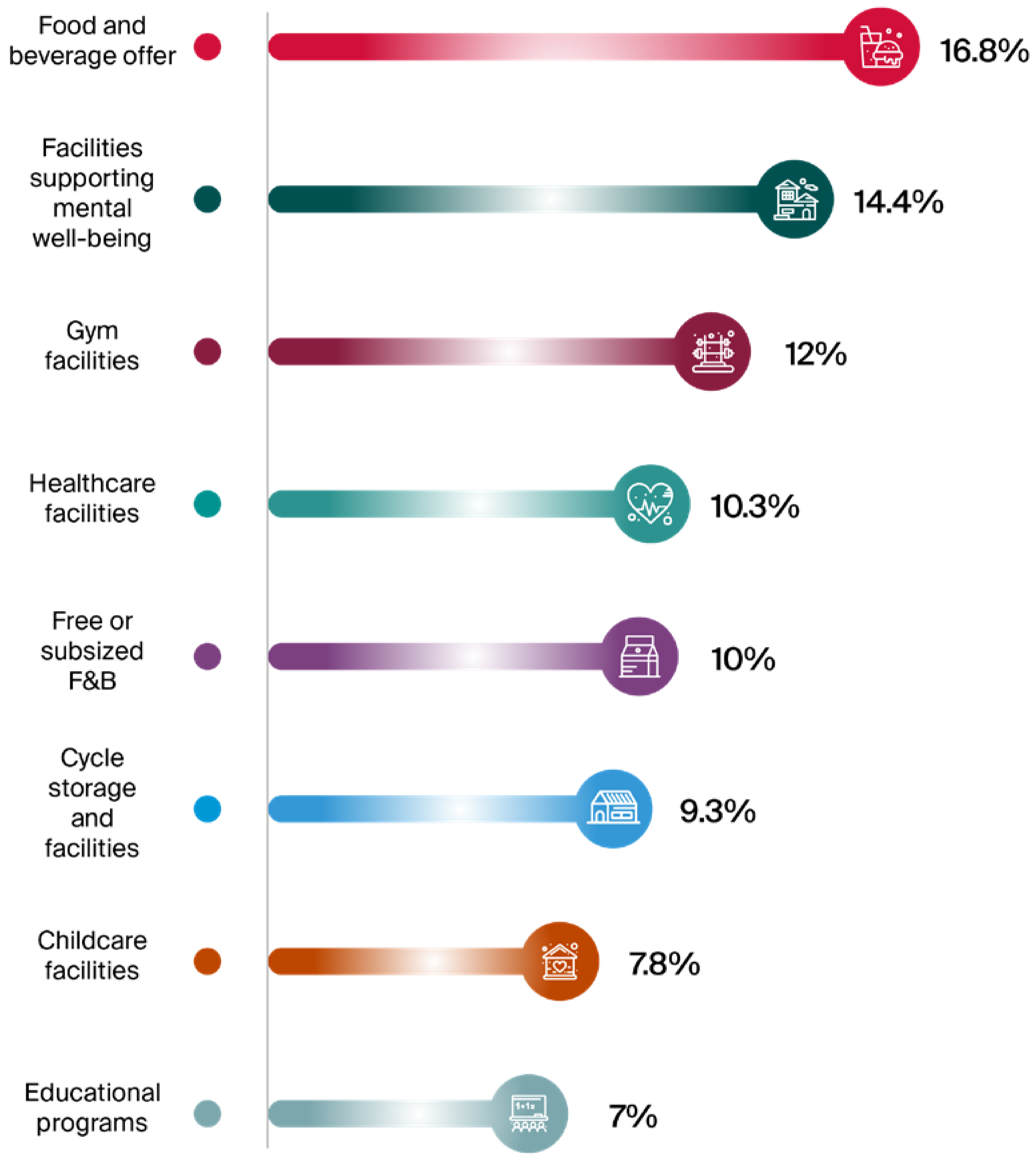
Secondly, occupiers will gravitate towards premium office spaces that reimagine work environments by integrating fit-out elements, technology, and amenities tailored for the future of work.

Both ways lead to an efficient workplaces prioritize employee well-being, crucial for organizations with an "office-first" policy. Companies that listen and address employee needs promptly are better positioned for high retention rates.

This is seen in the same report that highlights workplace priorities, including on-site food, mental health, and fitness amenities, offering employees options to tailor activities for an enhanced work-life balance.

Read the full article

Amenities and services companies expect employees to demand in the next 3 years globally, according to (Y)OUR SPACE 2023



The return of shared services

Morgan McGilvray
Senior Director
Occupier Strategy & Solutions

If 2023 was the year of the Healthcare BPO, then 2024 could mark the return of multinational corporations' shared-services.

These shared-service operators tend to focus on quality, both in terms of their building selection, and in terms of their office. Shared-services also tend to have higher environmental standards than other sectors of the market, as developers should note.

Growth in MNC shared-services was relatively slow during the pandemic era – with a few notable exceptions – but started to show signs of life again in the latter half of 2023. If that trend continues, then the market can expect some of the world's biggest companies to be growing their footprints again throughout the Philippines.

Read the full article

From the expert

Robust demand & rising rents

We expect demand and leasing activity to be better in 2024.

We will continue to see robust demand for Prime and Grade A+ developments in key districts such as Makati, BGC, and Ortigas, with some prominent buildings seeing rapid take up of multiple floors, especially from existing tenants expanding. Occupancy in some of these LEED-rated top Grade A buildings are reaching 80% with developers revising published rentals upwards.

In the fringes, momentum is relatively slow and part of the reason is bigger interest from larger firms to explore the provinces. Large BPOs are being innovative, willing to explore any markets they can get talent, and less competition for it. Large occupiers are looking to test all possible markets with flex strategy. Flex will only grow as it has the lowest penetration in Philippines among most markets in Asia.

From an international perspective, India demand has been robust and nothing suggests otherwise in 2024. Demand will largely be led by GCCs, India Inc., BFSI and Flex, with BPO share declining.

Read the full article

Ankur Maheshwari
Senior Director
Occupier Strategy & Solutions

One of our property-managed properties in Nasugbu, Batangas

The rise of second homes

More Filipinos are showing a growing interest in getting second homes, especially in residential leisure condos outside Metro Manila.

An increasing number of Filipinos expressed a heightened interest in acquiring second homes, particularly in residential leisure condominiums in Metro Luzon. Tagaytay emerged as the favored location for second homes, with Pampanga and Batangas (Laiya and Nasugbu) tailing behind.

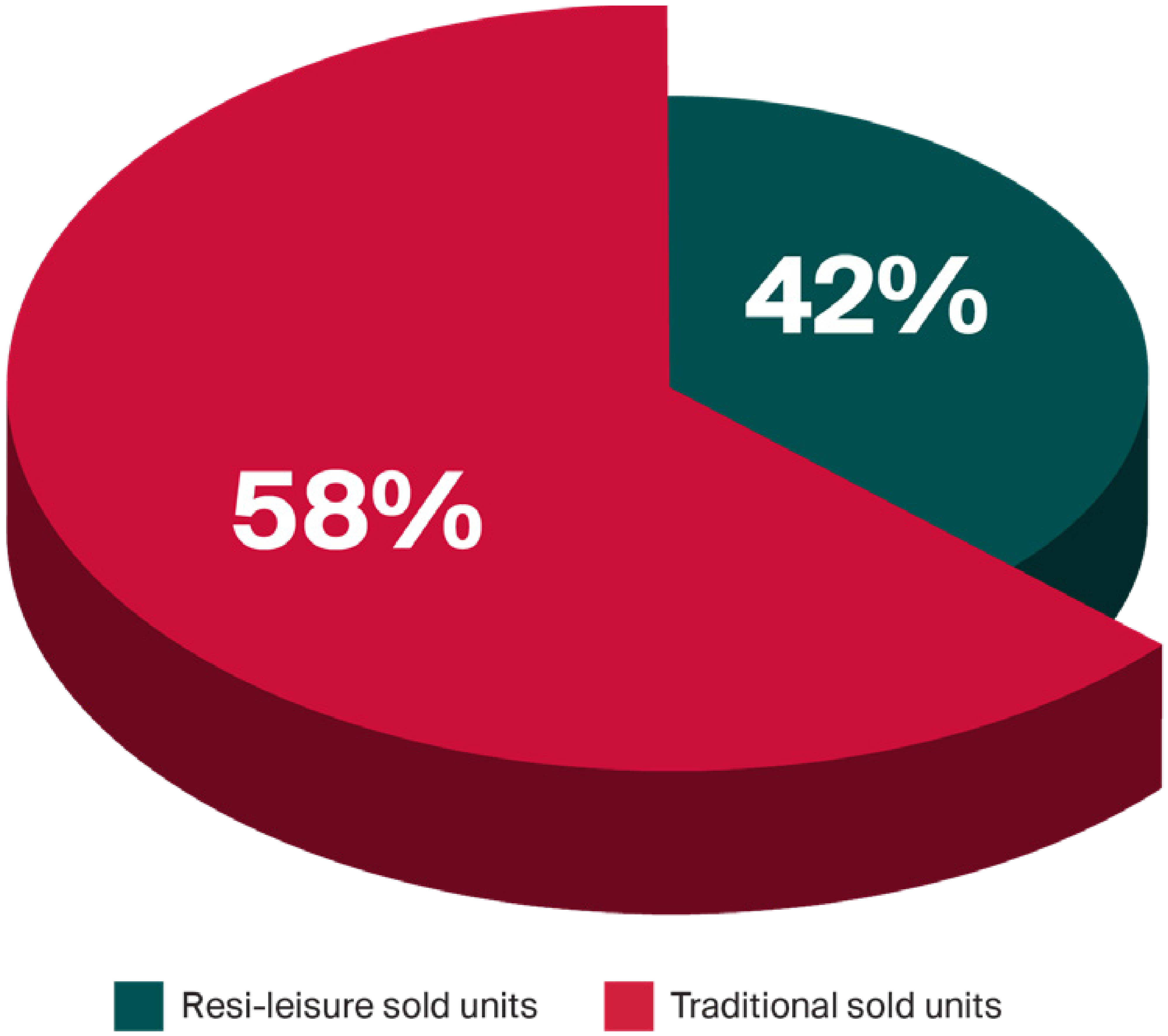
In April 2023, San Juan, Batangas saw 689,000 domestic travelers, Nasugbu had 268,022, and Tagaytay welcomed 436,508 tourists. These figures emphasize thriving tourism and widespread appeal, but residential selling rates reveal more evident demand, with 42% of units sold in Metro Luzon classified under residential-leisure.

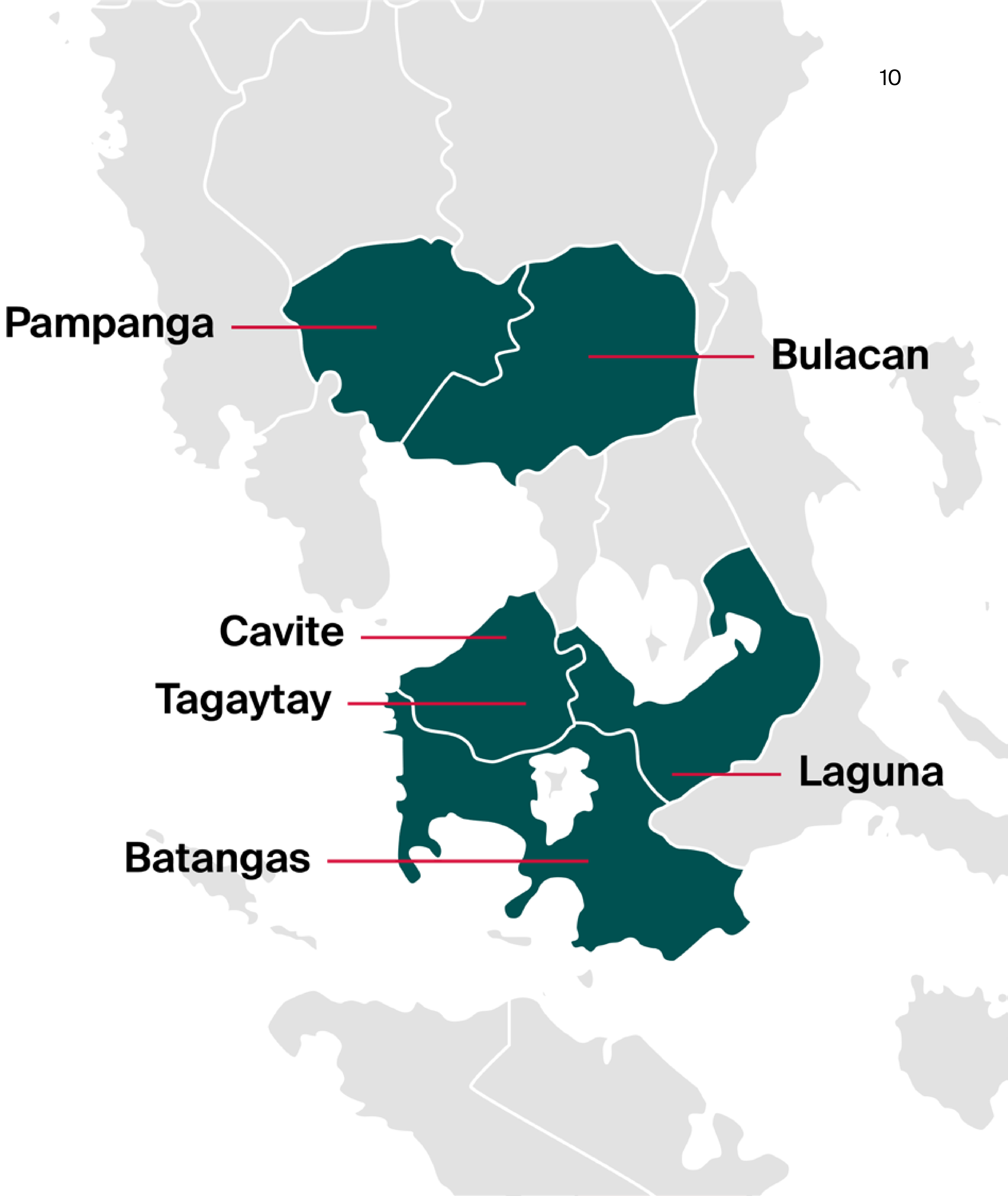
Pampanga leads Metro Luzon in selling rate at Php 126,374/sqm, followed by Tagaytay at Php 122,500/sqm and Laguna at Php 117,269/sqm. Bulacan, Cavite, and Laguna exhibit the lowest average unit prices: Php 3.7M for Laguna, 2.9M for Bulacan, and Php 2.8M for Cavite.

Whether it's a second home or a residence close to work, the Philippine real estate sector is experiencing a robust phase, underscored by a burgeoning demand for luxury residential spaces.

Read the full article

By Q3 2023, 42% of residential units sold in Bulacan, Pampanga, Cavite, Laguna, and Batangas were residential-leisure properties. Tagaytay and Laiya top the list.





Manila: A global prime spot

Manila led global prime residential growth at 21.2% year-on-year in Q3 2023

Recent years have witnessed a surge in local wealth creation in the Philippines, driving rapid expansion in luxury residential developments, including prime residences. In Q3 2023, Manila witnessed the world's fastest prime residential price growth at 21.2%, according to Knight Frank's Prime Global Cities Index.


A penthouse unit for sale in The Regency at Salcedo, Makati

Demand-pull dynamics

The observed price trend may be explained by demand-pull dynamics. Post-pandemic, luxury residential properties have seen a notable surge in popularity, leading to a significant 27% year-on-year increase in property prices nationwide, according to the BSP.

The significant increase – the biggest since 2016 – was mainly due to the growing demand for high-end real estate projects, demonstrating their ability to mitigate the effects of rising interest and mortgage rates.

Increasing HNWI and UHNWI in the Philippines propel rapid growth in luxury residential developments. By 2025, their populations are projected to reach 18,900 and 660 individuals, respectively, prompting developers to be ready for a surge in the luxury real estate sector.

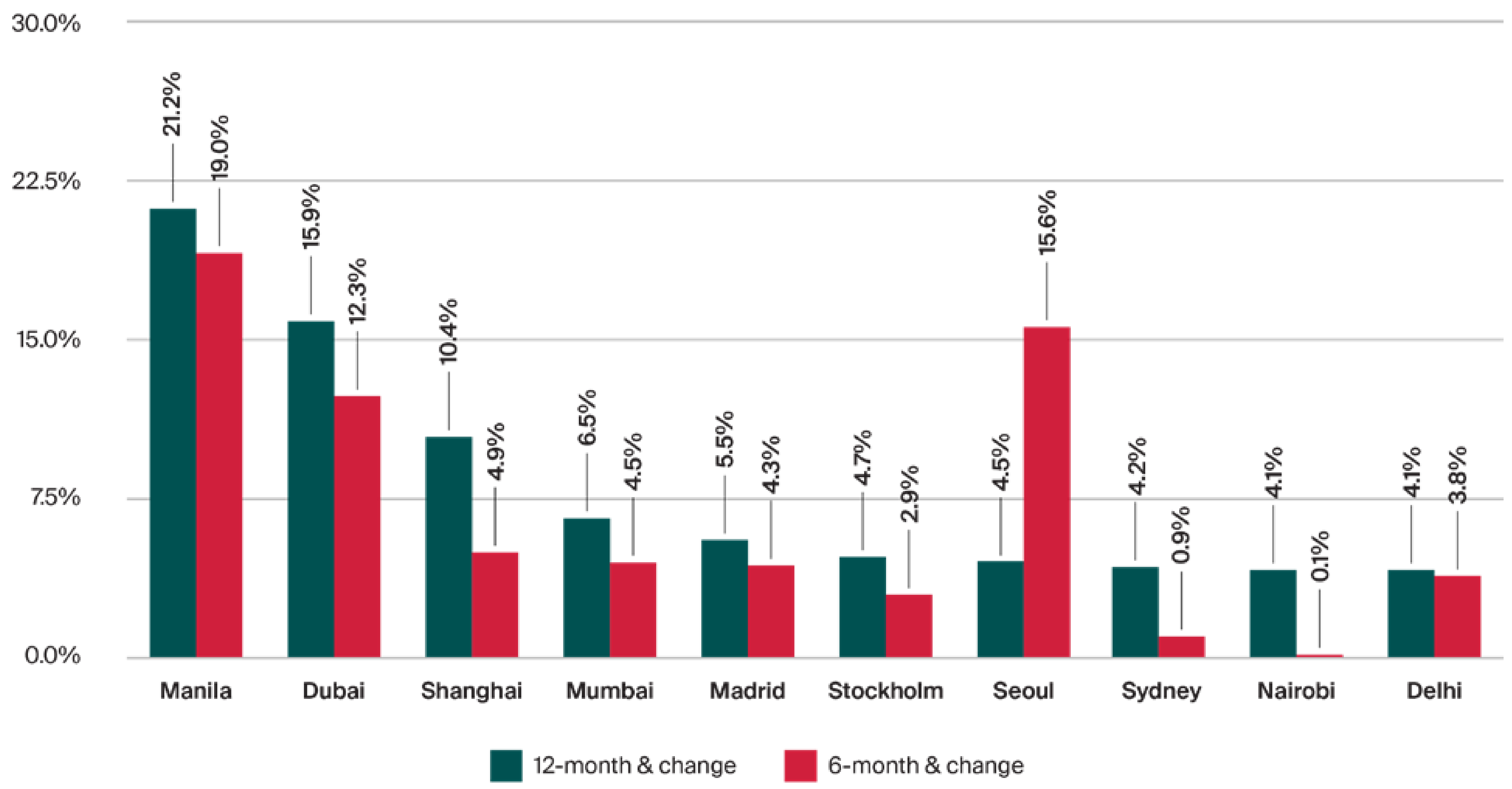
Lastly, President Ferdinand R. Marcos Jr.'s business-friendly policies, have boosted confidence and investments in the Philippines, enhancing the appeal of prime residential properties for global buyers seeking competitive prices.

The interplay of demand and supply factors in the luxury real estate market highlights the complexity of economic forces, offering insight into the market's growth potential.

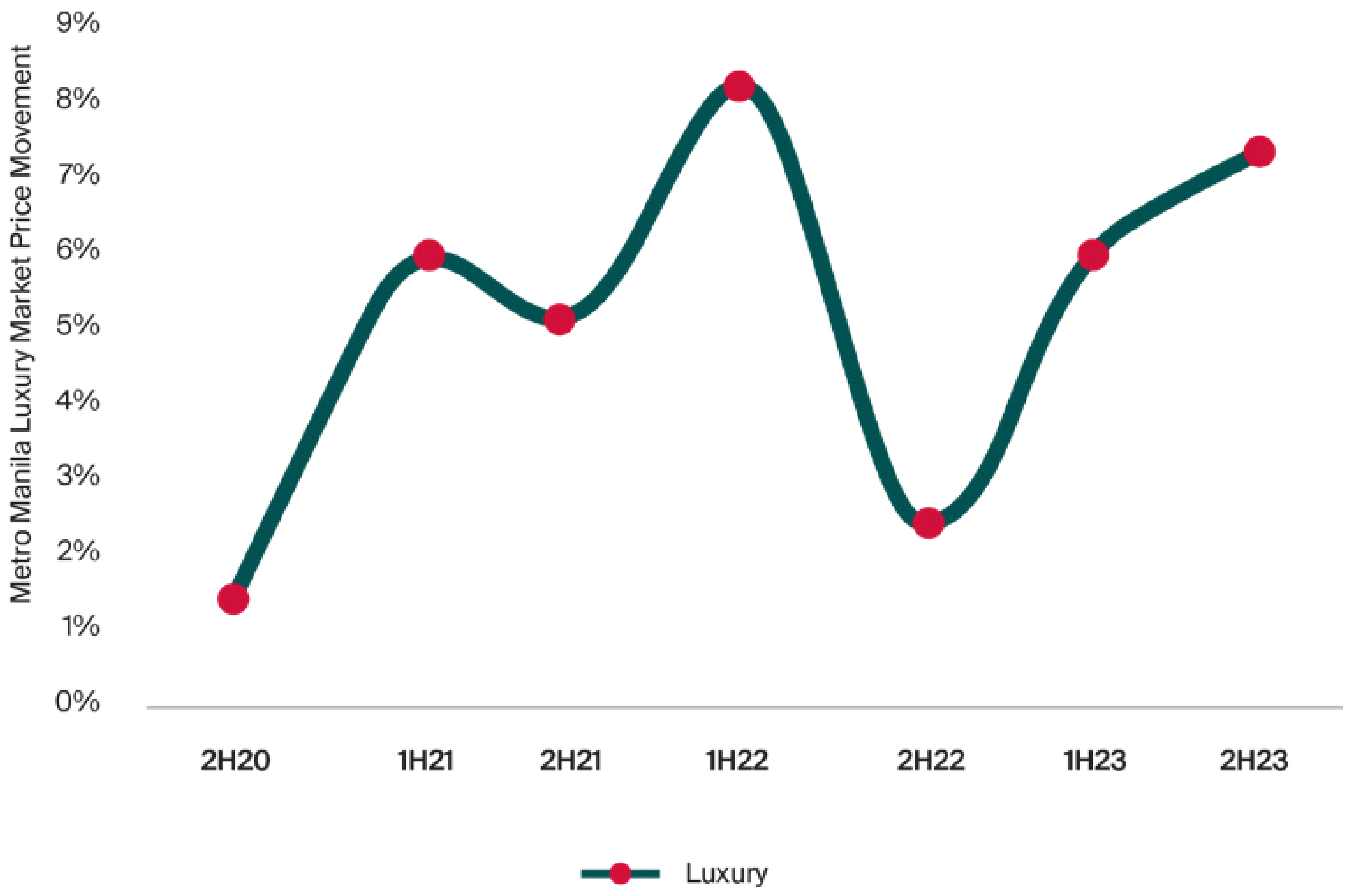
Read the full article

Metro Manila's prime residential

In Q3 2023, Manila had the fastest growth in luxury residential prices.



Luxury market price in Metro Manila has accelerated since the second half of 2022. Tight supply of luxury developments will continue to put pressure on prices.



From the expert

Spotting opportunities in the fringes

Anjo Sumait
Manager
Residential Services

The residential real estate sector in the Philippines has demonstrated consistent growth in recent years, and all signs point towards further advancement in 2024. This growth is attributed to several key factors, including the ongoing process of gentrification in nearby provinces, a recalibrated transportation system, and the turnover of new infrastructures, which will greatly improve interconnectivity between provinces and cities.

The idea of gentrification in nearby provinces is influencing the real estate landscape, providing opportunities for development and investment outside of traditional urban centers. This presents a promising prospect for both developers and potential homeowners, as it offers the potential for new urban centers to emerge, thereby spreading economic activities and real estate development.

Moreover, the recalibration of the transportation system is poised to significantly impact residential real estate in 2024, as improved infrastructure often results in increased accessibility and enhanced connectivity. This may further drive property value and demand in areas with improved transport links, offering increased opportunities for development and investment.

Additionally, the turnover of new infrastructures is set to play a pivotal role in the residential sector's progress. The interlinking of provinces to cities through modernized infrastructures will not only bolster convenience and accessibility but also potentially lead to the emergence of new growth centers and residential hubs. These factors collectively serve as catalysts for continued expansion and investment opportunities.

A mixed-use warehouse for sale in Dasmariñas Technopark, Cavite

Read the full article

Diversifying portfolio

It is noteworthy that investors in the real estate market should carefully consider the potential benefits of diversifying their assets from the metropolitan areas. Movements in the fringe regions have already exhibited various indicative signs of flourishing township developments, presenting a compelling case for diversifying real estate portfolios beyond the traditional urban centers.

In conclusion, the outlook for the residential real estate sector in the Philippines for 2024 appears promising, driven by the factors of gentrification in nearby provinces, the recalibrated transportation system, and the development of new infrastructure. This presents an opportune time for investors and stakeholders to consider the diverse and evolving landscape of real estate opportunities beyond the metropolitan sphere.

A mixed-use warehouse for sale
in Dasmariñas Technopark, Cavite

The evolution of retail

The Philippine retail scene evolves with ecommerce and shifting consumer tastes, prompting mall operators to transform traditional centers into multifaceted modern hubs.

Traditionally confined to rows of retail stores, malls have transformed into dynamic spaces that address a wider spectrum of consumer needs.

Mall operators integrated office spaces to capitalize on the central and accessible nature of malls. This fosters a symbiotic relationship, enhancing overall appeal and generating consistent foot traffic.

Forward-thinking operators connect malls with transportation hubs, making it easier for both consumers (to shop and commute) and retailers (to generate profit).

Malls integrate residential spaces, aligning with the mixed-use trend for a community-oriented lifestyle with living, working, and shopping in one vicinity.

Integrating offices, transport terminals, and residences in malls boosts foot traffic, extends operating hours, and diversifies services, enhancing modern malls' economic viability and urban living while promoting sustainability and reducing commuting needs.

Read the full article

The rise of roadside retail

Prominent brands, including Landers, S&R, Decathlon, and various food service chains, have strategically embraced roadside retail.

Uniqlo expanded with new roadside stores in Alabang, Pasay, Marikina, and Nuvali, experiencing robust sales and attracting customers seeking the brand, according to Yuki Yamada, Uniqlo's CEO for Singapore, Malaysia, and the Philippines.

In addition to this, other benefits of roadside retail versus malls include flexible hours and increased control over real estate. The question remains whether other major brands are willing to adopt the roadside store strategy.

Quezon City

Available Leasable Area
1,660,013.00

Occupancy rate
91%

Taguig

Available Leasable Area
439,994.00

Occupancy rate
93%

Ortigas

Available Leasable Area
979,340.25

Occupancy rate
91%

Bay Area

Available Leasable Area
658,653.00

Occupancy rate
85%

Makati

Available Leasable Area
575,155.00

Occupancy rate
88%

Alabang

Available Leasable Area
796,881.00

Occupancy rate
93%

90%

Overall Metro Manila retail occupancy rate as of 2H 2023

5.1 sqm

Overall leasable retail area in Metro Manila as of 2H 2023

Where to invest next

Toby Miranda
Director
Investment & Capital Markets

Residential: Residential Properties in Metro Manila continues to surge, and the gap on Manila prices with more developed economies has never been so small. We may see more growth in new developments in neighboring cities outside Metro Manila.

Industrial: Among all of the real estate asset classes, industrial is still a crowd favorite among investors. More and more developers which previously did not have industrial assets in their portfolio are now shifting from the traditional office spaces to industrial spaces. Compared to residential and vertical developments, whether it may be office spaces or residential condominiums, the cost to construct and raw materials are far greater than of industrial spaces. Lease terms and repairs and maintenance are favorable to the landlords as well.

REITs: The industry is still young and we foresee and anticipate portfolio diversification away from the usual office and retail REITs. Do watch out for exciting REIT expansion opportunities to data centers, logistics and perhaps even tollways.

Location: In terms of the location of your investment I would highly suggest looking at government infrastructure projects. Ongoing bridges and highways are currently being constructed at a pace unlike anything we've seen in recent years. Now is the perfect time to take advantage of the value in which these projects will impact the economic productivity and efficiency of that locality. Decentralization and decongestion of Metro Manila have been an initiative of the government since the previous administration.

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Cold storage units
for sale in Lipa, Batangas

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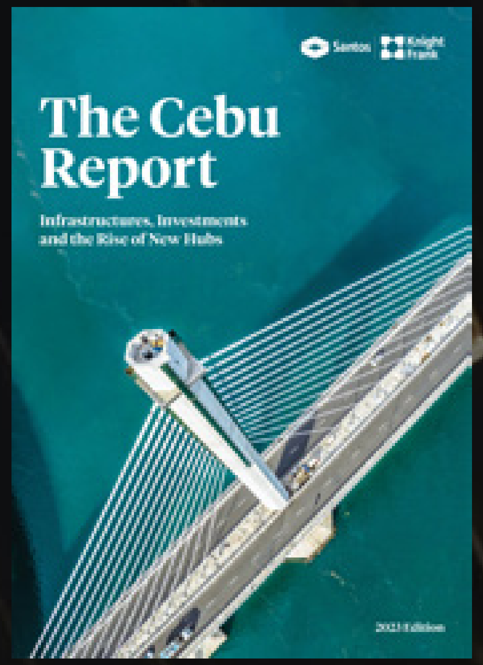

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