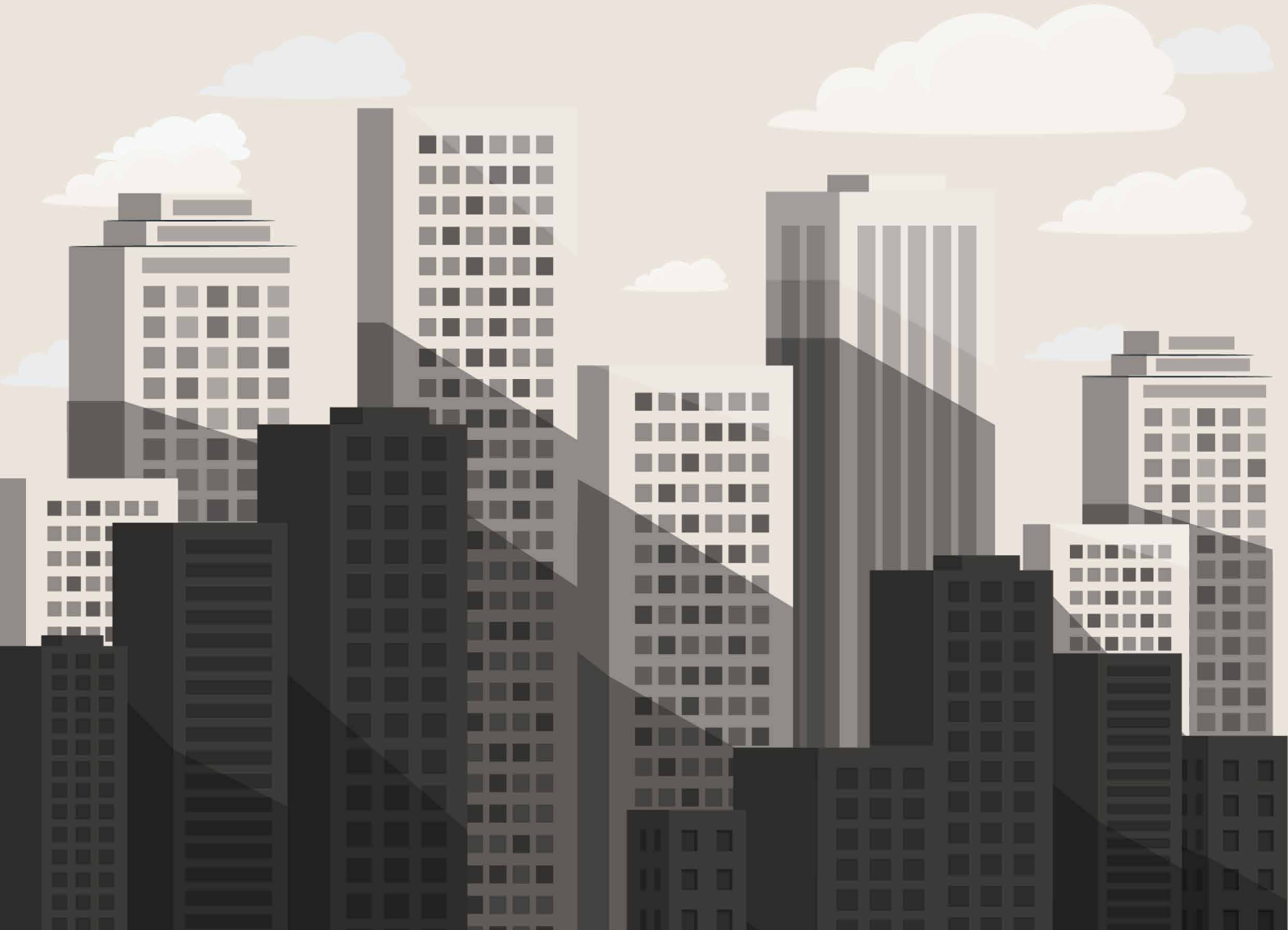
Santos | Knight Frank

the collab special report

The Philippine Occupier Sentiment Survey 2024

A glimpse into the next 3-5 years



About the survey

The Occupier Sentiment Survey is an exploration on occupier-side insights regarding the real estate strategies of office locators in the Philippines for the next three to five years.

There are four general options for the real estate strategy, and the respondents can choose more than one:

- **Expansion – new lease acquisition without giving up currently occupied spaces**
- **Changes in the office design or layout – changes in the physical aspects of currently leased spaces without changing footprint**
- **Changes in footprint in their current location/s – changes in leased area, whether increase or decrease**
- **Relocation– leaving current location and transferring to a different one**

The survey was participated by various stakeholders from office occupiers coming from different sectors and industries. After thorough screening, answers from 95 respondents holding the ranks of manager and up were analyzed in order to get a glimpse of the future of the workplace.

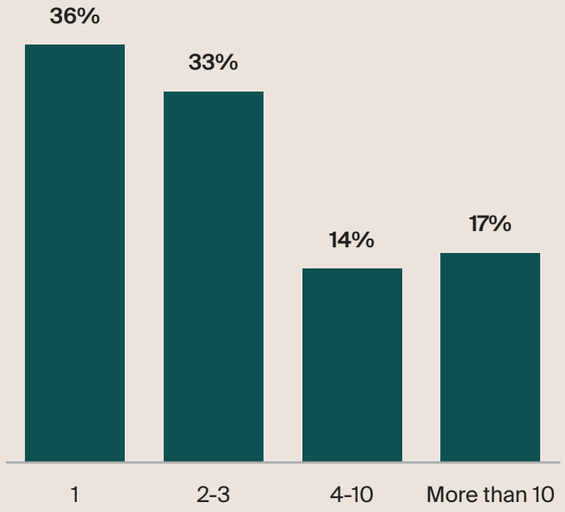
Fifty-nine percent of the respondents come from various subsectors of the Information Technology and Business Process Management (IT-BPM)[1].

The share of the sector in the respondents can be considered representative of Philippine office occupiers as IT-BPM continues to be the major demand driver of office space in the country.

[1]Combination of BPO-shared services/captive/KPO, BPO-third party services, and information technology & communications.

Nature of Business

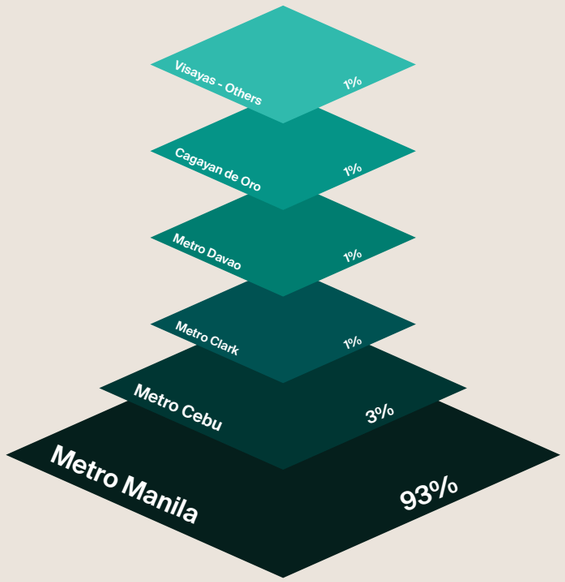
Number of sites/offices in the Philippines



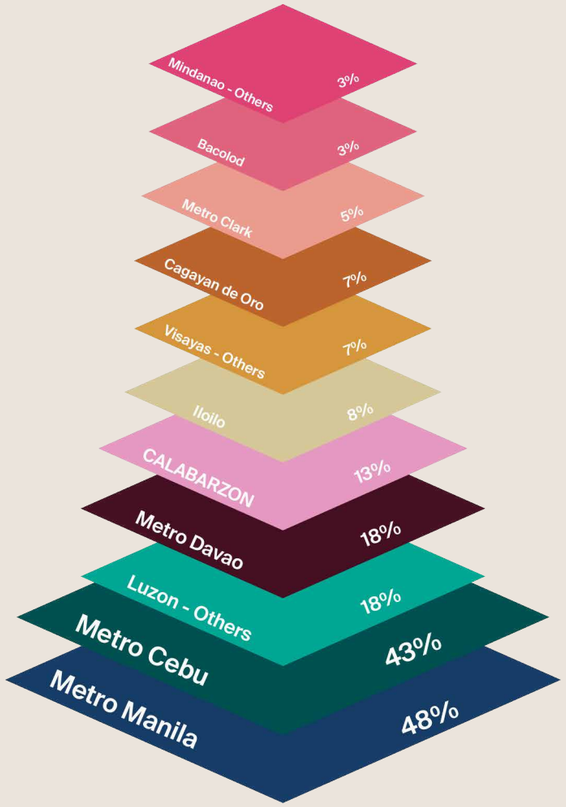
Meanwhile, in terms of geographic presence, 64% of respondents come from companies with multiple locations in the Philippines, wherein 17% come from companies with more than 10 sites nationwide.

A vast majority of respondents are primarily located in Metro Manila at 93%. Meanwhile, for those with multiple locations, those with the biggest share for secondary offices are Metro Manila, Metro Cebu, other parts of Luzon, Metro Davao, and CALABARZON.

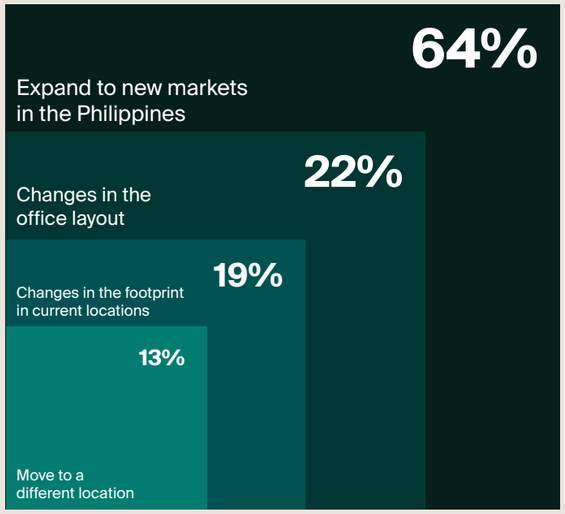
Primary Location



Secondary Locations



Real Estate Strategies



Among the four core real estate strategies asked in the survey, expansion received the highest share of responses at 64%, followed by layout or design changes at 22%, then by changes in footprint in existing locations at 19%, and finally by relocation at 13%.

a.
Expansion

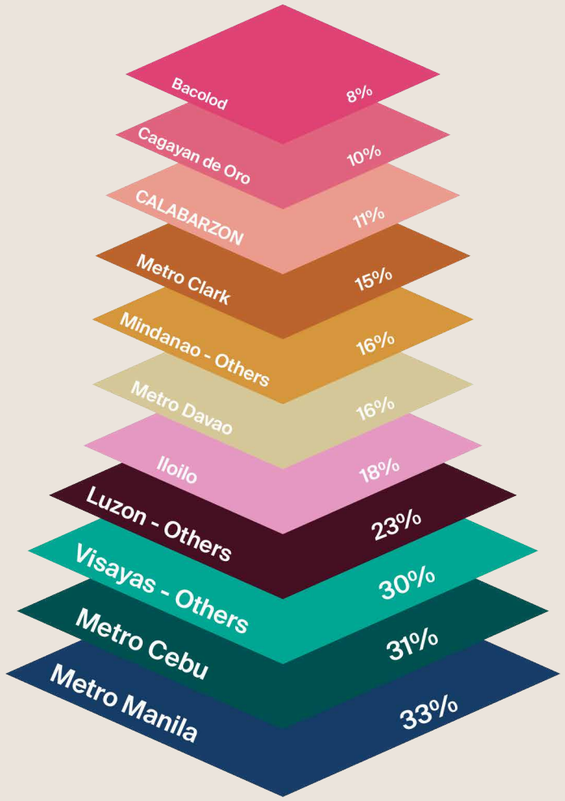
After the series of right-sizing initiatives at the height of the pandemic and the years that followed, sentiment towards expansion is now recovering. This is aligned with recorded improving occupancy levels in the Metro Manila office market wherein net absorption for the 1st half of 2024 is 125% more than the annual total for 2023.

While a vast majority of respondents considering to expand come from companies that are already based in the National Capital Region, Metro Manila still commands the highest share in terms of where the respondents want to expand to at 33%.

Other locations that are part of the 5 most preferred areas of expansion are Metro Cebu (31%), other parts of Visayas (30%), other parts of Luzon (23%), and Iloilo (18%).

[Note: percentages will not total 100% as respondents can choose more than 1 potential location for expansion.]

Preferred Area for Expansion



Aside from the traditional Mindanao options of Davao City (16%) and Cagayan de Oro (10%), there also seems to be an increasing interest in exploring other parts of Mindanao (16%).

“Luzon - others” refers to locations within the Luzon group of Islands other than Metro Manila, Metro Clark, and CALABARZON. Some emerging markets in Luzon are Baguio City; Dagupan City and Urdaneta City in Pangasinan; Malolos City and San Jose del Monte City in Bulacan; Naga City and Iriga City in Camarines Sur; Laoag City in Ilocos Norte; Tuguegarao City in Cagayan; Balanga City and Olongapo City in Zambales; Legazpi City in Albay; Puerto Princesa City in Palawan; Cabanatuan City in Nueva Ecija; San Fernando City in La Union; San Fernando City in Pampanga; and Tarlac City in Tarlac.

On the other hand, “Visayas - others” refers to locations within the Visayas group of islands other than Metro Cebu, Iloilo and Bacolod. Some emerging cities in Visayas are Dumaguete City in Negros Oriental; Tacloban City in Leyte, Tagbilaran City in Bohol; and Roxas City in Capiz.

Finally, “Mindanao – others” refers to locations within the Mindanao group of islands other than Metro Davao and Cagayan de Oro. Some emerging locations in Mindanao are Zamboanga City in Zamboanga del Sur; General Santos City in South Cotabato; and Iligan City in Lanao del Norte.

Countryside development is an agenda by both current and the immediate past administration, and a number of initiatives and programs were developed to support this. In 2019, then-president Rodrigo Duterte approved Administrative Order 18 series of 2019 which essentially placed a moratorium on the processing of applications of ecozones (under the Philippine Economic Zone Authority) within Metro Manila, shifting the focus to areas outside the National Capital Region.

In November 2023, current president Ferdinand Marcos, Jr. amended this with Administrative Order 11 series of 2023 which allows for the resumption of the processing and evaluation of applications for ecozones in Metro Manila in the condition that such applicants already received a pre-qualification clearance from the PEZA before the implementation of AO 18 s. 2019.

The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act, signed into law in 2021, also provides for longer tax holidays for enterprises registered under investment promotion agencies (IPA) if they are operating outside of Metro Manila.

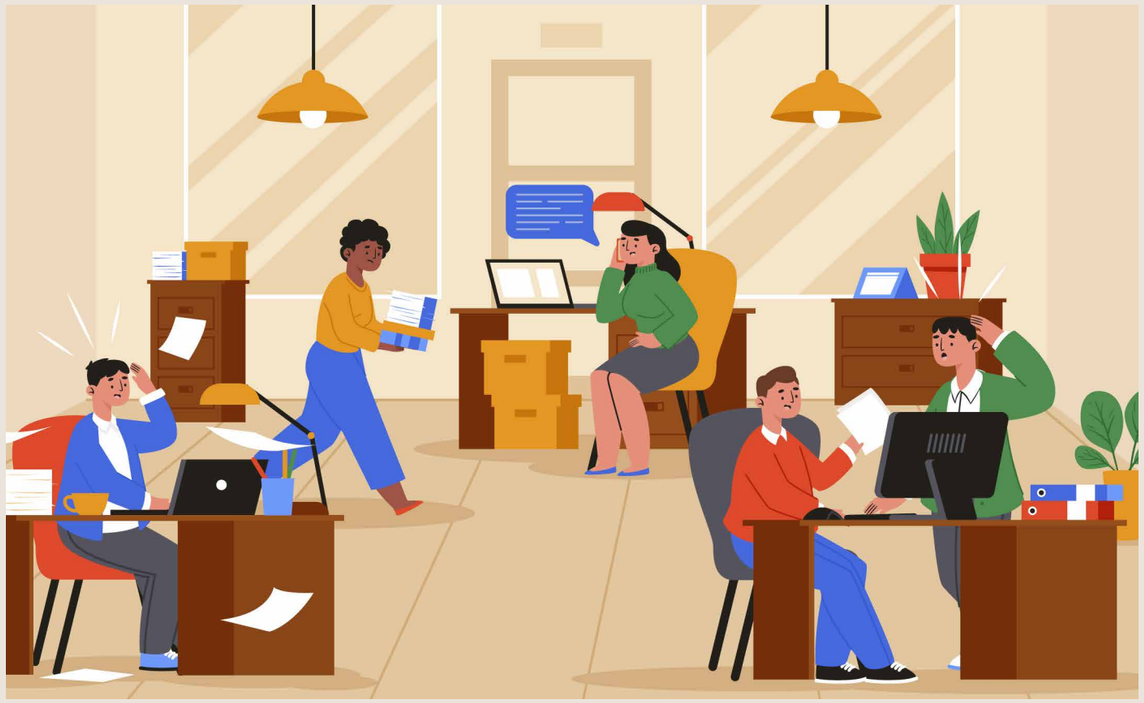
IPAs such as the Board of Investments and PEZA have certain requirements in which eligible enterprises need to comply in order to qualify for incentives. For PEZA, in particular, the locator's nature of business must be part of a list of eligible activities that are generally export-oriented, and they should operate within PEZA-registered locations or ecozones.

Of the 591 proclaimed economic zones, 41% are located in Metro Manila. Among proclaimed PEZA IT Centers and IT Parks, which IT-BPM companies prefer to locate not only in order to avail benefits, but also to ensure that they are in a building that can support their IT-intensive operations, Metro Manila has the highest share of 60% and 31% respectively. Central Visayas and Western Visayas have the 2nd and 3rd biggest share in IT Centers, while Bicol region and Davao region have the 2nd and 3rd biggest share in IT parks. These locations coincide with the top expansion options.

Top 3 regions with the most economic zones

IT Centers	IT Parks
National Capital Region 60%	National Capital Region 31%
Central Visayas 15%	Bicol Region 16%
Western Visayas 7%	Davao Region 15%

It seems that the preference for expansion prospects is more tied to where there are existing facilities that can support these occupiers' operations, rather than compelling them to explore build-to-suit arrangements. The Government and private property developers must then work hand-in-hand in developing both infrastructure and office options in emerging markets in order to realize the ambitions of pushing development into these areas.



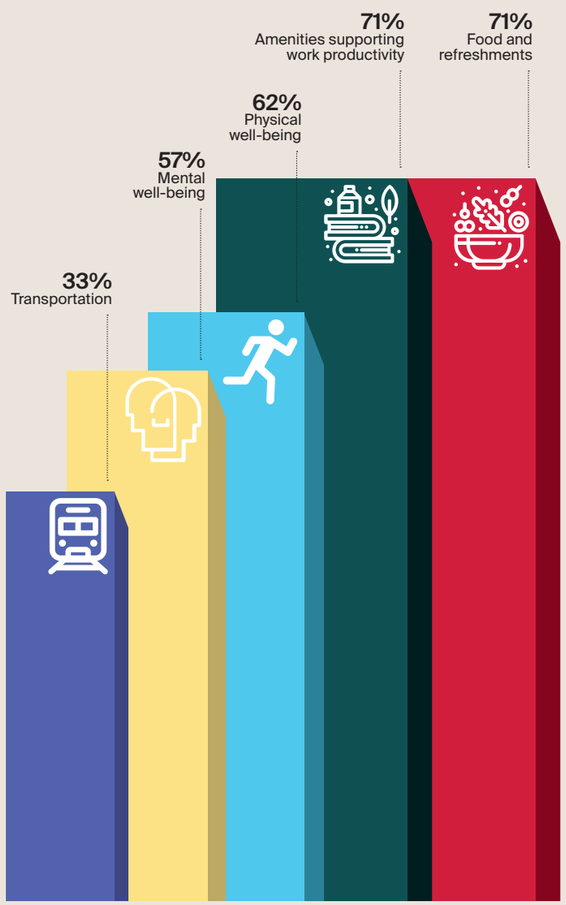
b.
Changes in office layout and design

Pre-pandemic, there was a growing trend of elevating collaboration in the workplace by adopting office configuration that encourages so. The concept of social distancing, however, took the centerstage as one of the non-negotiables in preventing the spread of COVID-19.

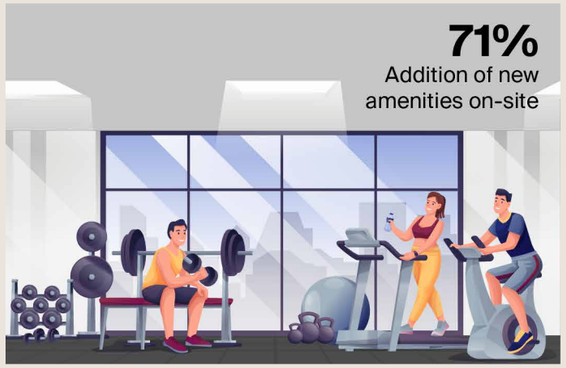
The Q2 2024 run of Knight Frank's Global Corporate Real Estate Sentiment Index showed continuously improving global sentiment towards de-densification, wherein occupiers are expected to deliver both "me space" or private space and "we space" or collaborative space.

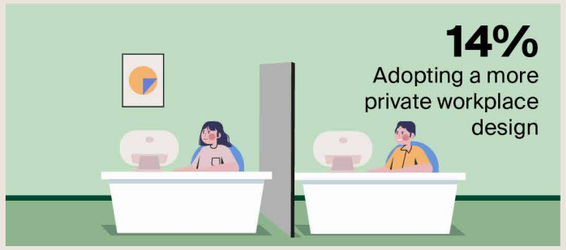
In the Philippines, the occupier sentiment survey showed that adopting a more collaborative work design is the top choice among Philippine-based office locators who plan to make changes to their office layout and design at 95%. Only 14% of qualified respondents plans to adopt more private workplace design.

The Global Corporate Real Estate Sentiment Index also mentioned that there seems to be subdued sentiment towards enhancing office services or amenities. In the Philippines, that might not be the case as 71% of qualified respondents foresee adding new on-site amenities. When asked for what general type of amenities employees have been asking for, or is expected to be asked for, food & refreshments and amenities supporting work productivity emerge as the top answers with 71% of respondents having selected them. Physical well-being and mental well-being follow at 62% and 57%. There are only 33% of respondents have employees requesting for transportation-related amenities.



Focus of Office Layout Changes





In response to this, employers are looking at adding the following amenities in their offices, wherein free or subsidized food & refreshments and gym, sports, and other facilities emerge as top choices:

48%
Facilities supporting mental health (recreation and socialization rooms)

57%
Free subsidized food and refreshments

48%
Collaborative work facilities

57%
Gym, sports facilities and other fitness facilities on-site

38%
Nap room or sleeping quarters

33%
Private/focused work facilities (phone booths, quiet work rooms)

19%
Paid food and refreshment options

19%
Storage and facilities related to alternative mobility devices

14%
In-house transportation arrangement

24%
Shower room

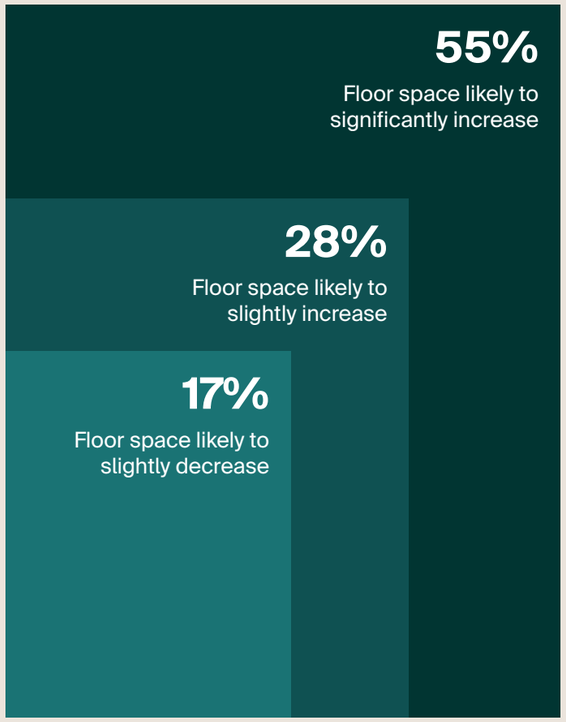
With hybrid generally seen as the way forward for progressive work arrangements, the office must be designed in such a way that it entices employees to travel to the office. Having a workplace that encourages productivity and offers amenities that usually can't be enjoyed at home can serve as a step in the right direction.

c.

Changes to footprint in current location/s

With only 18 respondents indicating possible changes to footprint in current locations, 81% expect a considerable level of stability in terms of leased area in current locations.

Footprint Changes

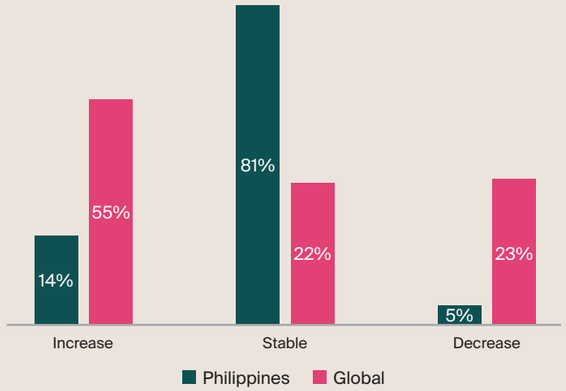


Among those who do expect footprint changes, 55% expect significant increase, while another 17% expect slight increase. Nobody chose the possibility for significant decrease, but 28% do expect some slight space contraction.

After more than 4 years into the onset of COVID-19, it is of our belief that most occupiers have already arrived at a comfortable footprint that their current operations require. Both expansions and contraction at this point are likely caused by operational changes.

Comparing the results of the local occupier sentiment survey and the results of the 2023 (Y)Our Space Report by Knight Frank Cresa, a lot more of Philippine-based companies are expecting no changes in their footprint. And while globally, more companies are expecting growth within in their existing real estate portfolio, there are also less Philippine-based companies that are expecting to downsize.

Footprint Strategy



d.
Relocation

Relocation is another real estate strategy that a lot of occupiers practiced during the pandemic usually for one of two reasons: practical considerations due to the financial impact brought about by the pandemic, or the more celebrated flight to quality.

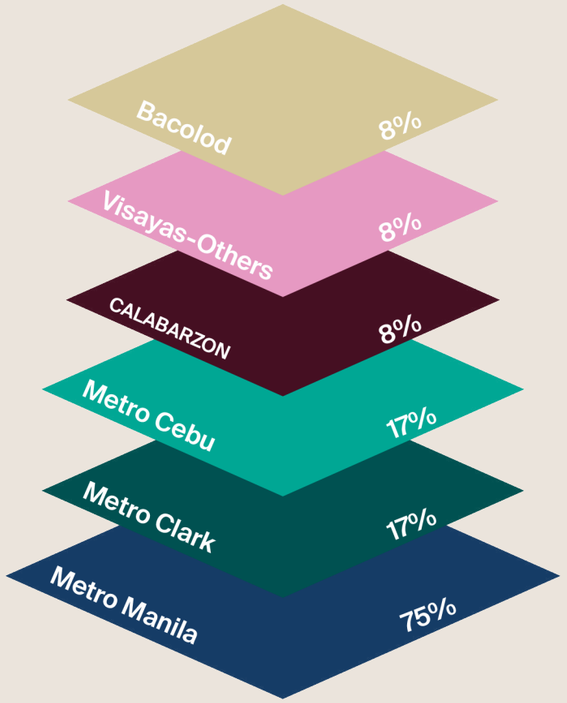
With most leases following a typical 5-year lease term, lease acquisitions that commenced in the last pre-pandemic year – 2019 – are expiring this year, opening an opportunity for relocation to either a cheaper or better building, or both. It must be highlighted that 2019 has the highest annual net absorption in Metro Manila's office market history at 833,000 sqm.

The results of our Occupier Sentiment Survey show that only 13% of respondents are considering to relocate. Of those that do, 75% want to relocate in Metro Manila – and all of them are either primarily based in Metro Manila, or at least have presence in Metro Manila already.

Other areas sought for relocation are Metro Clark, Metro Cebu, CALABARZON, Bacolod, and other parts of Visayas.

Among the respondents who are likely to relocate, 83% listed better accessibility for current employees as the top consideration for relocating. This resonates with the concept of hub-and-spoke model wherein smaller offices near employee residences are made available as an alternative to going to their main office. This also supports how a number of respondents have multiple locations within Metro Manila, and a good number also plan to expand within Metro Manila as well.

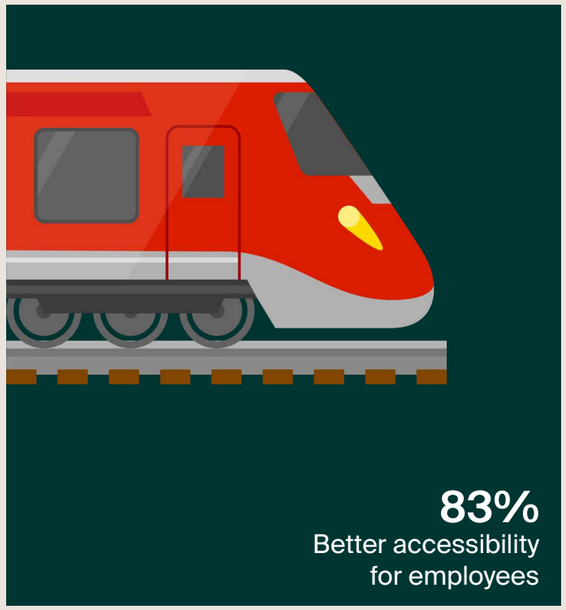
Preferred Area for Relocation



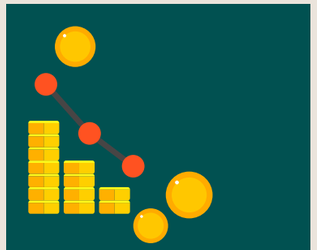
Lower occupancy cost emerged as the second biggest reason for relocating while better quality of building came as third. Better access to talent had the least share relative to the others perhaps indicating a not-so-aggressive outlook when it comes to hiring new talent for the meantime.

Flight-to-quality continues to be seen as a demand driver for higher-grade buildings, especially since the rental gap between older, less-efficient buildings and newer ones have been shrinking. Furthermore, negotiability in commercial terms continues to be generally wider as compared to pre-pandemic times, so occupiers can find that a lot of the recently-completed buildings can offer more cost-efficiency.

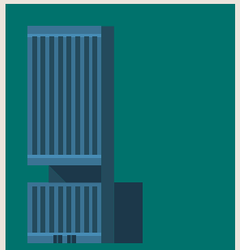
Focus of Office Layout Changes



83%
Better accessibility for employees



67%
Lower occupancy cost



58%
Better quality of building

42%
Better access to talent

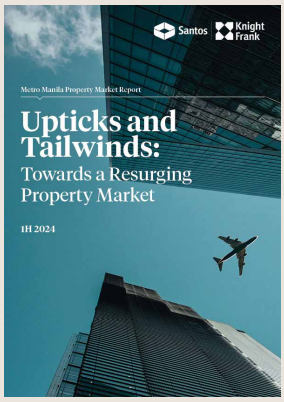
Conclusion

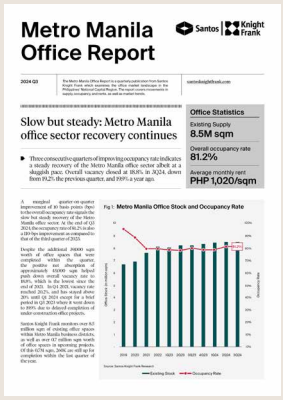
The pandemic has accelerated workplace evolution, pushing forth new ways of doing work. In a spectrum with full-office on one end, full-remote on the other, and various forms of hybrid in between, occupiers are coming up with suitable real estate strategies.

Whether it be expansion, relocation, or changes to footprint or workplace design, the various real estate strategies being taken by occupiers show continued relevance of a physical workplace in the Philippine setting.

To make the most out of this unique advantage, developers must tailor-fit their product and service offerings to the particular needs of existing and prospective occupiers. At the same time, the Government must continue to work on policies and programs that make the Philippines more attractive not only for local businesses, but also for foreign investors looking for the most competitive outsourcing and offshoring destination.

Recent Publications





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