Asian Cities - 2H 2023

SPOTLIGHT

Savills Research

Metro Manila Offices

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Falling rents amid vacancy woes trigger flight-to-quality

OVERVIEW

In the post-pandemic office scene, Metro Manila continues to climb its way back to its best days. Property developers have shifted their focus to introducing certified green buildings which are substantially favored by tenants due their environmentally conscious features and sustainable design. As a result, increased pressure is being felt by older buildings to stay competitively relevant against their newer rivals. Landlords must proactively adapt and invest in strategies that align with these changing priorities to maintain competitiveness in the market. Holistically, combining rental adjustments with improvements in services and sustainability can positively impact the overall appeal of older buildings.

Metro Manila's office space transactions dropped by 10% QoQ, with a 21% vacancy rate with the exception of the Bay Area which experienced a significant upswing with 33,900 sq m of new transactions. Rental rates across Metro Manila remained stable, with Alabang CBD experiencing a slight decline. Landlords are offering discounts and concessions to attract tenants, but the lack of leasing activity and a strong supply pipeline may prompt flexibility.

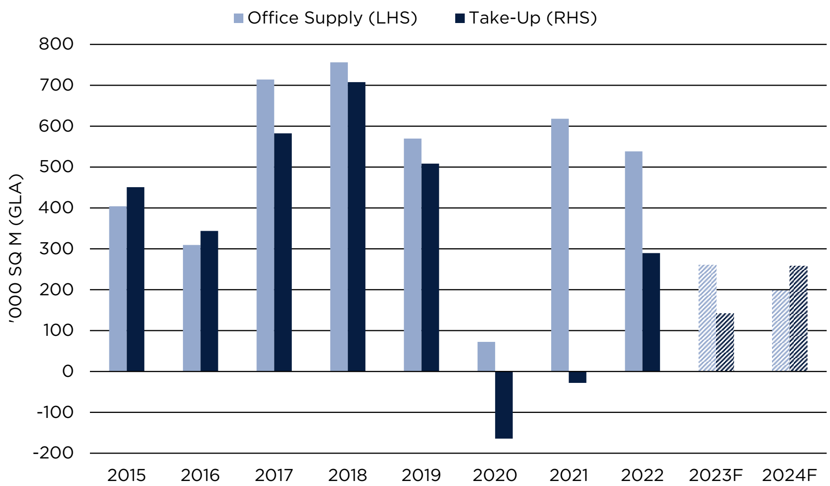
MAJOR CENTRAL BUSINESS DISTRICTS: MAKATI CBD, BGC & ORTIGAS

The vacancy rate in Makati CBD remains stagnant at 15%, with transactions tapering down despite positive net absorption. Most of the movements were still seen in buildings with premium addresses, which have started to offer more competitive terms. On the other hand, rents have increased marginally by 0.7% QoQ as newer office buildings re-adjust pricing due to declining availability. Despite inactivity in the previous two quarters, vacancy rates are expected to remain below 16% due to 40,000 sq m in additional supply expected within the next two quarters. Further rental adjustments from older office stock will likely push average rental rates down as they struggle to improve occupancy.

Bonifacio Global City (BGC) experienced a slight drop in office take-up, with a vacancy rate increasing from 10.5% to 11% in the last quarter. This led to 19,000 sq m of office space being vacated, with locators shifting to nearby submarkets with more competitive rental rates. In terms of pricing, BGC's average rent has seen the highest increase of 2.6% YoY and is PHP1,049 per sq m per month, higher than Makati CBD rents at PHP1,021 per sq m per month. Landlords are starting to hike rental rates due to stable operations after the pandemic. The vast available supply and construction of new buildings will continue to challenge BGC office landlords. However, the rise in the number of locators going back to the normal office setup can still be tapped by BGC offices, especially by offering competitive rates.

Ortigas Center has seen a positive net absorption for a third consecutive quarter, reducing its vacancy rate to 25.4% from 25.9% in the previous quarter. Total transactions, primarily from new high-grade buildings, increased by 17% QoQ to 13,200 sq m, as the submarket continues to gain momentum in terms of leasing activity. Rental growth was observed for a fourth consecutive quarter, with an average rate of PHP691.8 per sq m per month, which reflects the submarket's sustained demand. The center's affordability, convenient location, and landlord flexibility make it a favorable choice for investors. However, transactions may be limited to newer buildings due to competitive rental rates. Additional office space is set to be completed by Q4/2023 and Q1/2024.

GRAPH 1: Metro Manila CBD Grade A Office Supply and Take up, 2015 to 2024F



Source KMC Savills Research

TABLE 1: Comparison of Office Stock, Rents and Vacancy Rate, 2023 to 2025

	UNIT	MAKATI CBD	BGC	ORTIGAS
Average Net Rental Rate	PHP per sq m	1,020.9	1,049.0	691.8
	US$ per sq ft	1.7	1.7	1.2
Upper Net Rental Rate	PHP per sq m	1,600.0	1,400.0	950
	US$ per sq ft	2.7	2.3	1.6
Vacancy Rate	%	15.2	11.5	25.4
Current Stock	Sq m	1,388,955	1,053,024	1,117,432
Development Pipeline 2023-2025	Sq m	40,244	182,265	87,921

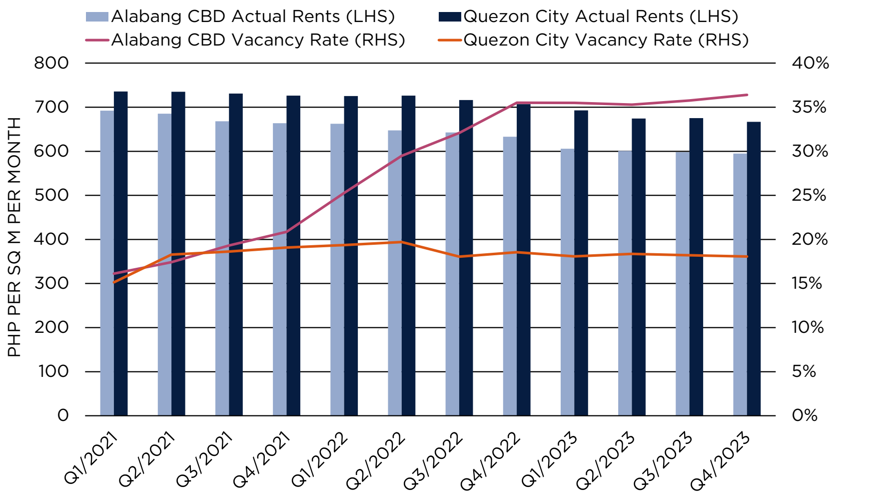
Source KMC Savills Research

OTHER SUBMARKETS

Alabang has maintained a 35% vacancy rate since the last quarter of 2022, with total vacancies reaching 235,200 sq m. Leasing activity remains lackluster, with tenants moving out of older buildings to new office stock due to falling rents. Office landlords in Alabang are attempting to address vacancy issues by trimming rental rates. The business district has experienced a 7.0% YoY decline, the highest among the main CBDs. Moreover, average rental rates have dipped below PHP600 since early 2014. The downward trajectory is expected to persist for the next two years, with an expected increase in available supply in the upcoming quarter, more particularly among older office buildings to put themselves in a competitive position.

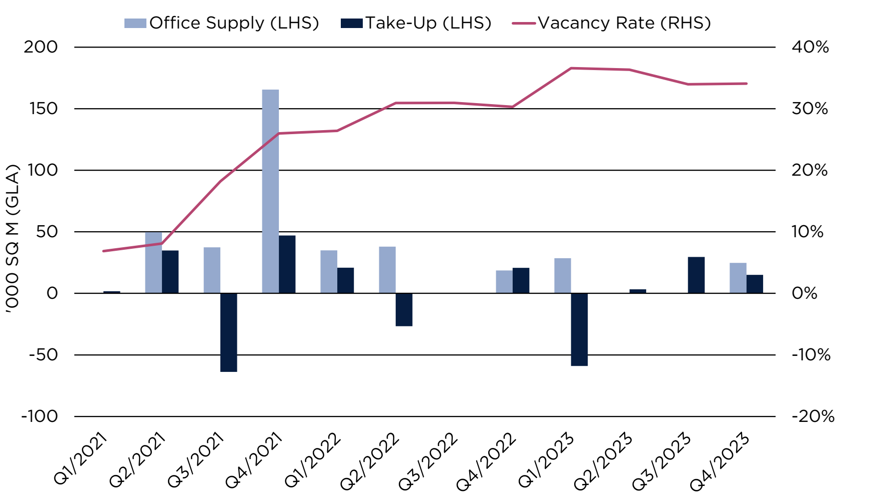
Metro Manila's post-pandemic office scene is slowly regaining momentum, with developers focusing on introducing more certified green buildings. Older buildings need to remain competitive, forcing landlords to adapt and invest in strategies that align with changing priorities.

GRAPH 2: Alabang CBD and Quezon City Actual Rents and Vacancy Rate, Q1/2021 to Q4/2023



Source KMC Savills Research

GRAPH 3 : Office Supply, Take-up and Vacancy in Bay Area, Q1/2021 to Q4/2023



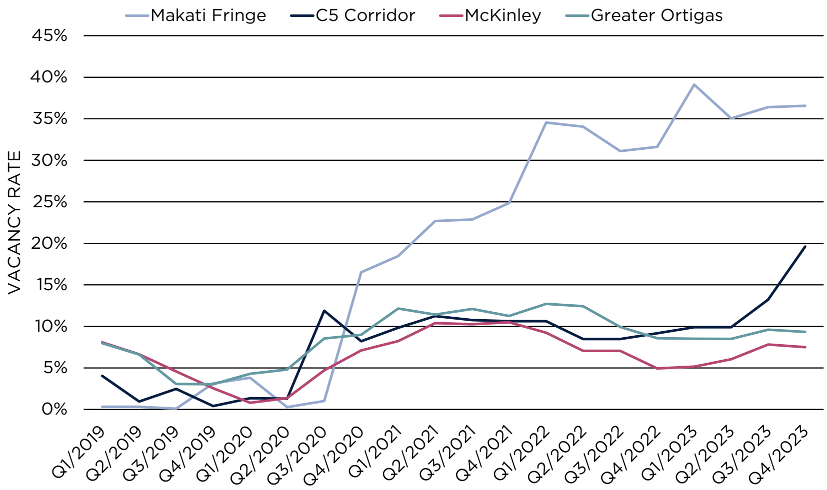
Source KMC Savills Research

Quezon City has maintained a consistent vacancy rate of approximately 18% since the same period in the previous year. This level of availability is expected to persist as no new supply is expected to be completed over the remainder of 2023. Rental rates for this quarter have remained stable at PHP675.2 per sq m per month, a 0.1% QoQ increase. Rates are expected to remain below PHP700 per sq m per month due to the lack of movement in the submarket. Due to a substantial supply pipeline, Quezon City's outlook is dismal; by the end of next year, rates are projected to approach Alabang CBD's level, bringing vacancy closer to 30%.

The Bay Area has seen the biggest take-up at 33,900 sq m, as logistics and e-commerce enterprises begin to emphasize accessibility for their staff members and closeness to port regions. Nevertheless, the vacancy rate is still high at 34%, greater than it was at 30.1% the previous year, despite the robust demand. After the quarter, rates were PHP732.9 per sq m per month, a small increase of 0.3% QoQ after falling by 3.9% in the previous quarter. The ongoing transaction activity in the Bay Area could potentially change its landscape due to the growth of BPO companies and the demand from the e-commerce and logistics sectors. The POGO sector may return, although this is still up in the air despite the rumors.

The remaining submarkets such as Mckinley, C5 Corridor, Makati Fringe and Greater Ortigas all recorded negative net absorption for office space during the quarter, which contributed to an increase in vacancy rates. Notably, the Makati Fringe's vacancy rate increased to 36.4% from 35% in the second quarter of 2023. Lessees moving to the main areas was the primary cause of the negative net absorption.

GRAPH 4: Vacancy Rate by Other Submarket, Q1/2019 to Q4/2023



Source KMC Savills Research

CBDs are seeing an increase in competition in terms of rent and other business factors. Additionally, major CBDs are easier to reach than recognized submarkets, primarily found in outlying locations. Given that office rents are expected to rise across Metro Manila, gains in terms of office take-up are not anticipated among other submarkets.

Information provided by kmc

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