Office leasing activity to remain subdued

INFORMATION technology-business process management (IT-BPM) firms are expected to drive demand for office spaces this year, although overall office leasing activity is likely to remain subdued in the first half of 2022, JLL Philippines said.

"For the office market, we're seeing signs of market stability. For Q4 2021, what we saw was a moderate take-up of 75,713 square meters (sq.m.) in gross leasing volumes," JLL Philippines Head of Research and Consulting Janlo C. de los Reyes said in a briefing last week.

While lower than previous quarters, Mr. De los Reyes noted sentiment has improved.

IT-BPM companies were the key office market drivers in the fourth quarter and accounted for 62.5% of the overall office take-up in 2021.

However, the work-from-home guidelines implemented by the Philippine Economic Zone Authority (PEZA) for ecozone locators may curb the IT-BPM sector's expansion this year.

"A lot of the IT-BPM occupiers have deferred their dealing decisions until they have clarity with regard to the guidelines set by PEZA... In the third quarter of last year, we saw pick-up in terms inquiries by a lot of the IT-BPM companies as they are waiting on the PEZA moratorium decisions. And with that being deferred to March 2022, we saw leasing activity go down," Mr. De los Reyes said.

The Fiscal Incentives Review Board extended the remote work arrangements for IT-BPM firms located within PEZA ecozones until end-March. Under the guidelines, outsourcing firms are allowed to have most of their workforce at home until March but they must have 10% of their employees on site.

"We do expect the same narrative for this coming March. We do think that the PEZA may further extend the moratorium given the Omicron variant as well as the market performance over the next coming months," Mr. De los Reyes said.

He noted many occupiers are now embracing a hybrid work model, "meaning they're open to having a percentage of their workforce work remotely."

Also, the upcoming May elections may dampen office leasing activity at least within the first half.

"We might see leasing activity slowdown as more investors as well as occupiers postpone their leasing decisions as they wait and see whether policies might change in relation to their portfolio and investment decision," Mr. De los Reyes said.

Aside from IT-BPM sector, technology, e-commerce, and logistics companies are also expected to fuel office space demand this year.

Philippine Offshore Gaming Operators (POGOs), which drove the office market pre-pandemic, are anticipated to make a comeback.

"I think POGOs may return but definitely not the same size as the previous period. I think what we may see that there is also a bit of apprehension from landlords," Mr. De los Reyes said.

Meanwhile, JLL Philippines said newly built real estate spaces is expected to "exert pressure on real estate recovery," as this would dampen the market in the short term as demand would not support supply.

The property services firm expects 838,000 sq.m. of new office spaces, retail expansion of 497,000 sq.m., 23,000 sq.m. of new residential spaces, and 7,000 sq.m. for the hospitality sector.

"Everyone was looking at 2021 as the recovery year for the market, but I think it was still part of our journey to recovery. We do expect the same story for 2022, but definitely, there are signs that are pointing at improved movement with regard to the real estate market for this year," Mr. De los Reyes said. — **K.C.G.Valmonte**

Underground cabling will need gov't subsidy, proper planning

By Marifi S. Jara
Mindanao Bureau Chief

ELECTRICITY and telecommunication companies are willing to shift to an underground cable system but such venture would require subsidies from the government and proper planning by public officials, according to representatives of utility service providers.

In a forum last week organized by the Liveable Cities Philippines project, corporate officials said the impact of Typhoon Odette (international name: Rai) underscored the need to set up facilities that are more secure in the face of changing climate risks.

"Odette was a sobering experience for all of us. We recognize the gaps that need to be filled and acknowledge that there is much to be done," said Anton Mari G. Perdices, senior vice-president and chief operating officer of Aboitiz Power Corp.

"Our goal now is to make sure that we build more resilient power systems moving forward," he said.

Aboitiz Power's distribution utilities operating in the major urban centers of Cebu and Davao — Visayan Electric Co., Inc. and Davao Light and Power Company, Inc. — have been transferring cables underground in small areas, mainly in busy downtown sections that are also usually used as parade routes during fiestas.

Mr. Perdices said these underground cabling projects were challenging not just in terms of the technical requirements on their part, but other considerations such as traffic management and a "robust" city planning.

"We're open to discussions on expanding this project to more parts of our franchise areas," he said, but multi-party mechanisms will have to be coordinated to make it commercially viable. "It will take a long time and a lot of money so there has to be some sort of government subsidy."

Globe Telecoms, Inc. Communications Manager Rofil Sheldon F. Magto said it would be beneficial for utility companies to coordinate with local and National Government agencies.

"That's a bit of a long-term discussion, but we hope that we are going in that direction together with other companies as well," he said in the same forum.

Architect and urban planner Nathaniel von Einsiedel said building resilient infrastructure is an urban management issue that primarily rests upon local governments.

"It's a matter of the LGU (local government unit) where the development is taking place, coming up with a system of requiring that kind of an approach, and putting in the mechanism for coordinating with the different utility companies in the actual implementation," said Mr. Von Einsiedel, president of the Alliance for Safe, Sustainable and Resilient Environments (ASSURE).

ASSURE is a volunteer organization formed by various professionals in the aftermath of Typhoon Haiyan, locally named Yolanda, which struck central Philippines in 2013.

Implementation is the main problem, he said, particularly "synchronizing" the timetable of private companies and government agencies for the rollout.

Mr. Perdices said underground cabling — along with other solutions such as having embedded generation systems or as simple as ensuring trees are regularly trimmed to minimize the threat of toppling utility poles — are doable if stakeholders combine efforts.

"Collaboration is really the way to go," he said.

Landlords urged to prepare for 'inevitable' return to work

LANDLORDS should take action now to prepare their properties for the "inevitable" return of workers to offices after the Omicron-driven surge in coronavirus disease 2019 (COVID-19) infections, according to Colliers.

"The Omicron variant should not hinder the property market's recovery and the much-anticipated rebound of the Philippines' office market. While the country battles a COVID-19 surge and new restrictions are imposed, landlords must now take action to prepare their properties for the eventual and inevitable return to work," Maricris Sarino-Joson, director of Office Services – Landlord Representation at Colliers.

Landlords should start retrofitting their properties to make them safer for those returning to the office.

This can be done by introducing technology to curb the spread of viruses in the workplace, such as touch-less access for restrooms and elevators, hands-free door unlock mechanisms, and virtual guest passes.

Ms. Sarino-Joson noted that landlords can also help occupiers make changes to the design of spaces to accommodate social distancing rules and other health features.

"This may mean coming up with recommended designs which promote health and wellness of office workers and offering flexible fit-out periods for occupiers to implement these much-needed changes," she added.

Converting spaces within buildings into fully fitted swing spaces or temporary office spaces is also ideal. "Existing tenants can use these spaces while they wait for their permanent office to be built or renovated," Ms. Sarino-Joson said.

Colliers also noted that short-term leases are an ideal option for landlords to cover the cost of running and maintaining their properties amid the pandemic.

"Accepting short-term leases may... open doors to new and previously untapped clients, such as startups," the diversified professional services and investment management firm said in an e-mailed statement on Jan. 28.

If landlords are able to find tenants willing to sign long-term leases, they should consider "sweetening deals," Colliers added.

These include offering more favorable commercial terms and concessions, such as flexible lease terms, partial termination options, and delayed escalation.

"Show the prospective tenant that longer commitment in the property can mean bigger cost savings in the long term," it said.

In December, Colliers said it was anticipating a rebound for the Philippines' property market in 2022, owing to the increased vaccination rate and improved consumer and business confidence.

However, the emergence of the Omicron variant of COVID-19 has delayed many companies' plans to return to the office. — **Arjay L. Balinbin**

Japan quarterly output gain signals growth return

JAPAN'S industrial production rebounded last quarter, with the recovery in manufacturing likely helping restore economic growth at the end of 2021 before the Omicron variant started its rapid spread.

A bounce back in auto output after a summer slowdown helped overall factory production climb 1% compared with the previous three months, the economy ministry reported Monday.

A separate report showed retail sales increased 2% from the prior quarter, as consumers returned to shops before the latest wave of the virus hit.

Factory production rebounds in final quarter of 2021

Still, weaker than expected production and retail sales figures in December after the emergence of Omicron and a sharp escalation of infections this month are casting a shadow over the economy's performance this quarter.

Toyota Motor Corp. this month reported production cuts due in part to an outbreak at a supplier's factory in Japan. Widespread supply-chain disruptions around the world spurred the International Monetary Fund last week to predict slower global growth this year.

"The steeper-than-expected drop in Japan's industrial output in December reflected downward pressure on the economy from the rapid spread of COVID-19 (coronavirus disease 2019) infections...This suggests downside risk to output in the first quarter," says Bloomber Economics

HOEJIN IWAI

Overall production slipped in December a tad more than economists had expected, following a record gain a month earlier, and record cases of the virus at home and abroad, driven by the fast-spreading omicron variant, have clouded the outlook in recent weeks.

"Supply constraints are having a bigger impact than I had expected," said economist Harumi Taguchi at IHS Markit. 'The spread of the Omicron variant is keeping workers at home, causing production to halt."

An unexpected drop for retail sales last month may also be an early signal that Omicron took some shine off last quarter's rebound. Receipts fell 1% in December, compared with analysts expectations for a fourth straight month of increases.

Still, manufacturers surveyed by the economy ministry said they planned to raise output by 5.2% this month and another 2.2% in February. The results suggest a continued recovery in the factory sector, although reported plans tend to be overly optimistic.

Auto production increased 12% compared with the prior quarter, but supply chain problems are also far from clearing.

Factory output will be key to keeping Japanese growth going this quarter, given surging Omicron cases that have triggered renewed restrictions across the country that are likely to deter shopping and eating out. With the 7-day average of infections now topping 70,000 nationally, quasi-emergencies were declared for Tokyo and most other major business centers this month.

"Domestic demand held up in December, but the omicron variant is hitting service businesses, especially restaurants and leisure-related ones," IHS Markit's Taguchi said. "We may see service-related consumption to fall in the first quarter." — ***Bloomberg***

Blackstone tees up $11 billion in fresh capital for Asia deals

BLACKSTONE, Inc. has amassed $11 billion to buy companies in Asia after raising its second private-equity fund for the region, nearly tripling its previous pool of capital raised in 2018.

The world's largest alternative asset manager raised $6.4 billion and will receive an additional $4.6 billion from Blackstone global funds for the pool, said Amit Dixit, the Asia head of private equity, in an interview. Since 2018, the firm has invested in deals valued at $20 billion in Asia, half which was done last year.

Blackstone is doubling down in Asia despite increasing risks from inflation and geopolitical tension. While global markets have plunged this year amid concerns over increasing interest rates, the selloff could present a good time to step in for investors flush with cash.

"As the year unfolds, we'll see very attractive opportunities," Mr. Dixit said.

Almost 100% of the investors in the first fund chose to take part in the latest fundraising, lured by consistent returns, geographical diversification and an increased focus on environment and social governance, according to Mr. Dixit.

Globally, the New York-based asset manager hauled in a record $155 billion in the fourth quarter, putting it ahead of schedule on its goal of managing $1 trillion by 2026. Its distributable earnings rose 55% to a record $2.3 billion in the fourth quarter. Still, President Jon Gray last week warned investors to brace for a slowdown in deal activity in technology and fast-growing companies as the market reprices assets after the recent stock plunge.

While the first Asia private-equity fund is "quite India heavy," the second will have a mix of investments across Asia-Pacific, Mr. Dixit said. It's currently working on three advanced deals in Australia, Japan and India and is doing due diligence on a Chinese consumer company as well as a Korean firm, he said.

It was involved in 8 transactions last year, including in Singaporean precision components firm Interplex, India's VFS Global, a visa outsourcing service provider, and Nucleus Network, Australia's largest phase one clinical trials provider.

THE FOCUS

Its focus on transforming traditional automotive, education and outsourcing businesses into technology-driven companies such as electrical vehicles, ed-tech and cloud migration has contributed to several successful exits, Mr. Dixit said, declining to provide return figures, citing confidentiality.

"We only buy what we can build," he said. "It's not good enough to make it efficient, it's important to grow."

Asia will benefit from conglomerates continuing to divest non-core assets, founders seeking successions and the availability of attractive financing, Dixit said.

The firm isn't deterred by China's crackdown on technology and other parts of the private sector. It will continue to invest in health care technology and artificial intelligence, including robotics and machine-learning, across the region. Companies focusing on climate change and renewable energy in Asia also offer good opportunities, he said.

"Government related issues play a little role in our decision making," he said. "Our strategy is very micro." — ***Bloomberg***

Thai cafe serves up crypto advice with coffee and cake

NAKHON RATCHASIMA — A cafe in northeast Thailand has become home to cryptocurrency traders, adding banks of screens showing the latest market moves and dishing out investment advice alongside coffee and cake.

Behind a calm exterior of cherry blossom trees, customers of HIP Coffee & Restaurant stare at their laptops, supping nervously on iced coffee — part of a surging interest in digital assets in Thailand that has regulators worried.

"It's exciting for me to be here because I get to meet people who share the same interests," said Detnarong Satianphut, a 35-year-old crypto trader.

"We (traders) get to exchange information because in the trading world we are coming up against millions of people."

Cryptocurrencies have been gaining momentum in Thailand, with as much as 251 billion baht ($7.62 billion) in digital asset traded in November, according to the latest official data.

Earlier this month, Thailand said it would start to regulate the use of digital assets as payments, warning of potential risks to financial stability and the overall economic system.

HIP cafe, which has been around since 2013, got its crypto makeover in 2020.

Since then, according to staff, its customers have doubled. Manager Oakkharawat Yongsakuljinda said the cafe provides alternative investment opportunities for people in the surrounding Nakhon Ratchasima province.

It offers free investment consulting and is planning on starting its own cryptocurrency coin.

Its customers say trading in the cafe offers them the best chance of success in a volatile market, in which the most well-known cryptocurrency, bitcoin, hit six-month lows this week.

"Having so many screens helps a lot ... We immediately know and get to analyze crashing factors and whether we should buy," said 23-year-old trader Apakon Putnok. — ***Reuters***