Opportunities and challenges for Philippine retail

By Joey Roi Bondoc

COLLIERS INSIGHTS

THE retail sector is one of the more stable segments of the Philippine property market. We attribute this to the Philippine economy being driven by personal consumption, with household spending covering more than 70% of the Philippine economy. The retail sector is also driven by remittances from Filipinos working abroad.

The Philippine regulatory environment has become more accommodating to foreign retailers planning to enter or expand in the Philippines. We are seeing greater interest from foreign retailers planning to locate in the country, contributing to greater absorption of retail space across the Philippines and potential increase in lease rates, which should benefit property firms with retail foothold.

This piece lays out recommendations on how mall operators and retailers can future-proof their businesses amid the waning impact of revenge spending and increasing cost of basic commodities. Retail stakeholders should also look at global economic and geopolitical issues that might hamper the sector's growth.

INNOVATIVE USE OF SPACES TO ENTICE MALLGOERS

Colliers believes that mall operators should reactivate their event spaces or activity centers and attract more mallgoers by organizing events such as trade fairs, exhibits and concerts to drum up retail interest.

Meanwhile, food and beverage (F&B), clothing and footwear retailers should consider opening pop-up stores, especially those testing the Metro Manila retail market which is starting to rebound post-COVID. This is particularly important for foreign players that are planning to gauge the local market's reception.

FUTURE-PROOF HIGH-DENSITY RETAIL SPACES

High-density retail spaces such as food courts and family entertainment centers were greatly affected by COVID lockdowns. Now that restrictions have eased and consumers are starting to go out and gather, Colliers recommends that retailers continue encouraging social distancing measures and implementing regular sanitation and other health and safety protocols.

Now is an opportune time to ramp up marketing of these high-density retail spaces. These retail spaces also raise consumer traffic and entice mallgoers to stay longer and spend more.

LAUNCH OF RETAIL REITs

Colliers believes that property developers with retail footprint should consider divesting malls into their real estate investment trust (REIT) portfolio, especially now that the retail segment is recovering. Malls generate recurring income and are now a viable REIT asset class as vacancy rates are stabilizing and lease rates are starting to go up.

In our view, developers should carefully assess which retail outlets to add to their REIT portfolio and should consider projected mall space absorption as well as profiles of retailers willing to take up brick-and-mortar spaces.

Developers should take advantage of renewed interest from foreign retailers as well as continued expansion of Philippine economy mainly driven by personal consumption. Foreign players that have previously pulled out of the Metro Manila market are making a comeback and this is indicative of the sector's rebound.

LOCK IN SPACE IN PRIME LOCATIONS

Colliers believes that retailers should be quick in securing mall spaces in key business districts across Metro Manila now that vacancy rates are stabilizing while rents are gradually increasing.

In our view, this trend is likely to persist in the market as footfall is rebounding across the capital region. We still see substantial vacancies in selected malls in Quezon City, Bay Area, and Alabang. Retailers should further explore the viability of opening physical space in these locations, especially in sub-locations where more office and residential buildings are likely to be completed. Looking forward, we see a heightened competition for prime retail spaces in central business districts in Makati, Ortigas Center, and Fort Bonifacio.

SEIZE THE DEMAND FROM NEW FOREIGN RETAILERS ENTERING THE PHILIPPINE MARKET

Colliers sees an improving demand for physical space from foreign retailers. We attribute this to improving consumer demand on the back of sustained macroeconomic expansion as well as enactment of measures that further relax the country's retail regulatory environment.

Mall operators should capture demand from foreign retailers planning to enter the country by taking into account their size and fit-out requirements.

AMPLIFY HOLIDAY MARKETING INITIATIVES

Colliers believes that retailers need to amplify their online and offline strategies especially now that demand is likely to increase due to holiday spending.

In our view, the release of holiday bonuses and additional remittances from Filipinos working abroad are likely to boost Filipinos' purchasing power in the fourth quarter of 2023 and retailers and mall operators should seize this additional push from Filipinos' propensity to spend.

REACTIVATE ACTIVITY CENTERS AND CURATE EVENTS

In our view, mall operators should maximize the consumers' willingness to visit brick-and-mortar mall spaces and participate in various activities held in malls' activity centers.

Events such as wedding fairs, bazaars, and even housing summits can entice more consumers to visit malls, stay longer and even spend more. Colliers believes that mall operators and retailers should closely coordinate in curating events that will be held in malls' activity centers.

REASSESS IDEAL RETAIL MIX

In our view, mall operators should carefully reassess the retail mix that they will be offering their consumers given the entry of more foreign retailers and expansion of local ones. This will especially be crucial for new malls that opened in the fourth quarter of 2023 and are planning to maximize holiday-induced spending from Filipino consumers.

While majority of retailers that will occupy physical mall space will be from the F&B segment, mall operators should thoroughly assess the ideal retailers that they will be featuring in their malls alongside the typical F&B, accessories, and personal care retailers.

Mall operators should carefully study which retail mix will provide them with optimal level of spending from consumers as well as sustained footfall for the long term.

RAMP UP OMNICHANNEL STRATEGY AND CASH IN ON HOLIDAY SPENDING

Mall operators and retailers should work hand in hand in improving the omnichannel shopping experience of their consumers. While Filipinos have returned to brick-and-mortar shopping, retailers should also consider the segment of Filipino shoppers that prefer to buy items online.

In our view, redesigning of physical mall spaces should be complemented by the improvement of retailers' online shopping platforms. We forecast a continued reconfiguration of physical mall spaces and we see this trend even after holiday-induced spending in the last quarter of 2023.

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REUTERS

US $100 NOTES are seen in this picture illustration taken in Seoul, Feb. 7, 2011.

Debt service,
from S1/1

Principal payments for domestic debt jumped by 109% to P854.039 billion, while amortization on foreign obligations dropped 7.91% to P113.051 billion.

On the other hand, interest payments went up by 24% to P567.65 billion in the 11-month period from a year earlier.

Interest paid to domestic creditors rose by 12.96% to P392.190 billion. This consisted of P248.69 billion in fixed-rate Treasury bonds, P124.118 billion in retail Treasury bonds and P15.275 billion in Treasury bills.

Interest payments on foreign debt increased by 36.14% to P175.465 billion.

Mr. Ricafort said the debt service bill could be reduced further once the US Federal Reserve and Bangko Sentral ng Pilipinas (BSP) begin their easing cycles.

The BSP has raised its policy rate by 450 basis points (bps) to a 16-year high of 6.5% since it began its tightening cycle in May 2022 to tame inflation.

The government's debt service budget this year is set at P1.552 trillion — P914.353 billion in amortization payments and P610.665 billion in interest. — **A. M.C. Sy**

Biodiesel,
from S1/1

"However, both the government and the coconut industry will have to decide the best utilization of the nation's coconut oil supply, as foreign buyers, such as the international cosmetics industry, will also compete for the same supply but may offer premium pricing," he said in a Viber message.

Bienvenido S. Oplas, Jr., president of Minimal Government Thinkers, said higher biodiesel blend could drive food prices up.

"Corn and other crops should feed people and animals, not cars. It will have an adverse impact on food prices and could worsen instead of mitigate high food inflation," he said in a Viber message.

Both analysts said the higher biodiesel blend might not necessarily lead to lower local oil prices because these still depend on the global market.

"World oil prices fluctuate up and down, but biodiesel mandates are permanent, with permanent price distortions," Mr. Oplas said.

Mr. Ridon said the government should ensure that the higher blend is supported by domestic agricultural production. "It makes no sense to the local economy to undertake a higher mandatory percentage of bioethanol if the supply will be provided by imports."

Real estate stress is brewing in Asian markets other than China

SURGING interest rates and regulatory scrutiny are causing distress for builders and creditors in Asian economies from South Korea to Vietnam, highlighting the breadth of housing woes in a region overshadowed by China's crisis.

While aggressive monetary tightening and the pandemic have had a more pronounced impact on commercial property in the US and Europe, it's residential housing that is under more strain in Asia. One of the worst hit nations, South Korea, saw the steepest home price slump in 25 years while a construction firm's repayment struggle has rekindled fears of repeating the credit market turmoil in 2022.

"Countries that had high consumer debt or balance sheet burden will be areas that you want to focus on," said Kheng Siang Ng, head of Asia Pacific fixed income at State Street Global Advisors. "Korea is one of them. Housing markets have been softening."

Here are some places where property market risks have the potential to boil over in 2024:

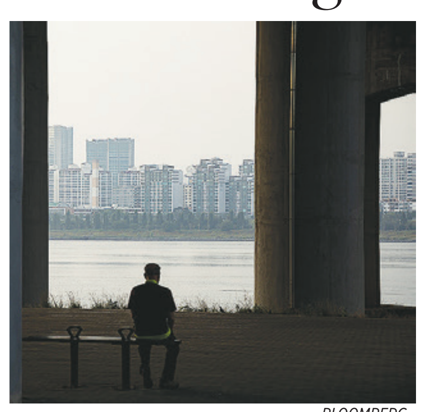
SOUTH KOREA

Korea's property market is showing the most strain after China in the region, with prices in 2023 falling by the most in a quarter of a century after years of growth. The weakness is the direct outcome of moves by the Bank of Korea — the first major Asian central bank to kick off the current monetary tightening cycle in 2021 — to push its policy rate to a 15-year high.

Turning the weakness into a crisis was a theme-park developer's debt blowup in late 2022 that snowballed into the worst meltdown in the country's credit market since the global financial crisis. While a suite of government rescue measures stabilized the situation, an engineering and construction company's request to reschedule debt in late December prompted authorities to pledge more support.

Bad debts for both households and companies are piling up and the Bank of Korea said risks related to project financing debt — a type of security used to finance construction that triggered the 2022 crisis — are likely to increase next year. Even so, officials say the country's financial system will generally remain stable.

The "potential restructuring of real estate project financing loans from the middle of 2024 following the election in April 2024 could raise volatility in the short-term money market at least temporarily," said Citigroup, Inc. economist Kim Jin-wook.



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INDONESIA

The local central bank's most aggressive rate hikes since 2005 put heavily indebted home builders such as PT Lippo Karawaci and PT Agung Podomoro under pressure, as it crimped household purchasing power. A weak currency made matters worse, by increasing the cost of servicing their soon-to-mature dollar debt, forcing them to resort to asset sales to raise cash.

Fitch Ratings said at the end of November that "some kind of default is probable" on Agung Podomoro's $132-million bond due in June 2024 after it has canceled an offer to buy back part of the unsecured notes. Refinancing risks for Lippo Karawaci, Lippo Group's Indonesia unit, also are rising, according to Fitch, which downgraded the firm's dollar note due in January 2025 to CCC+ in November.

But the prospect of an end to Indonesia's policy tightening is giving dollar-denominated property notes an uplift, as investors anticipate an improvement to real estate demand.

Fitch has predicted a recovery in local corporate bond sales, citing increased refinancing needs and a more supportive economic environment. Borrowers are expected to continue to prefer shorter-tenor issuance in 2024, as there is higher demand for short-term notes amid rate uncertainty, Fitch said.

VIETNAM

The government's ambitious anti-graft campaign upended Vietnam's property sector already plagued by oversupply, impeding corporate bond issuance that triggered a liquidity crunch and missed payments by borrowers. But regulatory interventions and multiple interest rate cuts have slowed the downward spiral.

"Vietnam's real estate market has had an extraordinarily challenging year, but we believe the worst of the downturn has now passed," Michael Kokalari, chief economist at VinaCapital Group Ltd., wrote in a report. "Mortgage rates peaked at as high as 16% at some banks in early 2023 but subsequently dropped dramatically."

Still, signs of trouble remain. Some banks have thin capital buffers and some have high exposure to real estate, according to Sue Ong, credit analyst at S&P Global Ratings.

The poster child of the property woes is Novaland Investment Group Corp., one of the country's biggest developers, notable for having a US-currency bond. The company agreed a maturity extension on holders of its $300-million convertible note, after an interest payment failure in July.

While the price of the note picked up on news the firm had struck a deal with creditors, the note is still indicated at 36 cents on the dollar, according to Bloomberg-compiled data. That's a deeply distressed level showing low investor expectations for full debt recovery.

Perpetual dollar bonds issued by several of the city's developers suffered their worst selloff in years in August, amid worries about soaring financing costs and the spillover impact of China's real estate woes. Leading the declines were New World Development, Co. — one of Hong Kong's most indebted developers. It's debt underperformed industry peers this year.

Behind investors' nervousness is a local property slump that saw the city's home prices drop to the lowest in almost seven years. Revenues from office buildings and retail space have also weakened following three years of stringent COVID curbs and the Federal Reserve's historic monetary tightening.

Demand was so depressed that Hong Kong developers were forced to cut home prices significantly, a tactic they hadn't deployed for years, while banks struggled to lure buyers for foreclosed homes at equally deep discounts.

"We are cautious about developers in Hong Kong with large exposure to residential and commercial properties in lower tier cities in mainland China as well as those with large office portfolios outside prime districts due to the elevated vacancy rate and continued negative rental revisions," said Zerlina Zeng, senior credit analyst at CreditSights. "We continue to underweigh Hong Kong developers with higher leverage due to the rising HKD funding costs, which would persist in 1H24."

AUSTRALIA

It's a slightly different form of property stress in Down Under, where the Reserve Bank of Australia's (RBA) aggressive tightening cycle has raised concerns over households' ability to stomach higher interest rates.

The International Monetary Fund (IMF) has indicated the country is liable to feel the effect of higher borrowing costs, at a time when a large chunk of home loans fixed at record-low rates during the pandemic are set to be rolled over to higher, floating rates. In Australia, more than 50% of mortgages have variable rates, according to the IMF.

The RBA warned in October that a small but growing number of households were in the early stages of financial stress. About 14% fixed-rate borrowers expected to face a rise in mortgage payments of more than 60% once their maturities expire, it said.

Data from the Australian Prudential Regulation Authority on banks' residential property exposure show new non-performing loans climbing to a three-year high though they still remain relatively low. — ***Bloomberg***

Bad Debts Are Set to Rise, S&P Says

	Australia	China	H.K.	Indonesia	Japan	Korea	Singapore	Thailand	Vietnam
2023 ratio (%)	0.9	5.4	1.5	2.8	1	1.3	2	2.8	2.8
2024 forecast (%)	0.9	5.0	1.4	3.5	1	1.4	2	3.2	3.6

Source: S&P Global Ratings
Note: Nonperforming assets as a percentage of system wide loans; 2023 figure is estimate
Bloomberg

Filinvest Land opens amenity area for Tanauan City dev't

FILINVEST LAND, Inc. (FLI) has opened its latest amenity area for its Sandia Homes residential development in Tanauan City, Batangas.

Sandia Homes' amenities include a clubhouse, basketball court, playground area, and a swimming pool.

"These amenities are more than just recreational spaces; they are designed to foster a sense of community, promote wellness, and enrich the lives of those who call Sandia Homes their home," Ethel Balicanta, FLI vice-president, said in a statement.

FLI aims to provide "a complete living experience" to raise the well-being of residents, she added.

Named after the Sandia mountain range in New Mexico, Sandia Homes is a community development under the smart-value brand Future of FLI.

Sandia Homes currently has 266 units available for sale. Lot sizes range from 60 to 75 square meters. — **M. H. L. Antivola**