2025 real estate outlook: What to watch for

By Joey Roi Bondoc

COLLIERS INSIGHTS

(First of two parts)

THE past twelve months have produced mixed results for the Philippine property. Office vacancies remain elevated while a sizable condominium inventory has yet to be absorbed by the Metro Manila market. Meanwhile, the retail sector has been recording sustained mall space take-up despite new supply while rebounding consumer spending has also been benefiting the leisure sector, resulting in occupancies more than tripling since the pandemic. Industrial parks continue to expand with greater prospects from sunshine segments such as electric vehicles and related components.

Meanwhile, the next 12 months provide vast opportunities for developers to reassess their strategies. They should identify growth opportunities and know how to recalibrate. 2025 is a year where we will likely see the full impacts of policy changes implemented in 2024 and the results of midterm elections likely to set the stage for 2028 national polls. Property firms should thoroughly evaluate headwinds in the market but should be quick in maximizing tailwinds. Only those who pivot will stay afloat.

OFFICE: OPTIMIZING NEW MARKET DYNAMICS POST-POGO

We see record high vacancies with the POGO exodus, but not all central business districts (CBDs) are the same, with Makati CBD, Fort Bonifacio and Ortigas CBD faring better.

Per submarket, Makati CBD will continue to record healthy occupancy rates as we only recorded limited vacated spaces. In our view, primary CBDs such as Fort Bonifacio, Ortigas CBD and Makati CBD are likely to recover faster compared to the Bay Area, Alabang and Makati Fringe. In 2024, we project overall vacancies to rise to 20.5%, a record high. In our latest briefing poll, Makati CBD emerged as the preferred destination for relocation and expansion. In fact, we believe that Makati CBD is up for redevelopment.

Tenants should take advantage of available fitted office space especially those implementing flight to cost and flight-to-quality measures. We see more occupants, including government agencies, taking advantage of high-quality office spaces being offered at a discount. Note that average lease rates in Metro Manila corrected by nearly 40% from 2020 to 2023.

We are likely to see sustained office space demand in Pampanga, Cebu, Davao, Bacolod, Iloilo, and Davao. We are getting queries from large BPO firms planning to either open their first facility or expand in these locations.

We see a more pronounced take-up for green and sustainable office space across the country.

In the first nine months of 2024, Colliers recorded 293,900 square meters (3.2 million square feet) of office space transacted in green buildings with Leadership in Energy and Environmental Design (LEED), Excellence in Design for Greater Efficiencies (EDGE), WELL Building Standard (WELL), and Building for Ecologically Responsive Design Excellence (BERDE) certifications or pre-certifications. This is nearly double the amount compared to the 151,900 sq.m. (1.6 million sq.ft.) transacted a year ago. Given the heightened importance of sustainability in occupiers' office requirements, landlords are encouraged to infuse green features into their portfolio.

Major office developers are taking the lead in promoting sustainability in workspaces. We see a more pronounced promotion of healthy office space as developers and occupants work together to lure employees back to traditional office setup.

HOTEL: FOREIGN BRANDS BETTING BIG ON PHILIPPINE HOSPITALITY

Visitor arrivals are expected to be at more than seven million this year — that is up by more than 20% year on year (YoY). The Tourism department is targeting 12 million foreign tourists in 2028. This should entice developers to build more homegrown brands or form partnerships with foreign operators in constructing more accommodation facilities across the Philippines especially in emerging tourist destinations.

Colliers believes that now is an opportune time for foreign brands to expand their presence in the Philippines given the planned modernization of the country's international airports and the projected rise in international arrivals. The government has also set a lofty goal of attracting 12 million international tourists in 2028. Other foreign branded hotels in the pipeline will come from Sheraton, InterContinental Hotels, Dusit Thani, Citadines, Tryp by Wyndham and AppleOne's JW Marriott in Panglao, Bohol. Colliers recommends that developers be on the lookout for upcoming convention centers and soon-to-be modernized airports outside the capital region for their hotel expansion plans.

Colliers believes that the establishment of more meetings, incentives, conferences, and exhibitions (MICE) is a must especially now that the government is positioning the Philippines as a key MICE destination in the world. The integration of these facilities is of utmost importance especially in business hotels located in major business districts in Metro Manila, Pampanga, Cebu, and Davao.

(To be continued.)

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AI adoption fuels demand for data centers in PHL — Leechiu

By Beatriz Marie D. Cruz
Reporter

THE INCREASING adoption of artificial intelligence (AI) is driving demand for data centers in the Philippines, which could, in turn, spur growth in the country's property sector, according to Leechiu Property Consultants (LPC).

"Although we're seeing a resurgence of the tourism (industry), because of the sluggishness of the office and residential sectors, (data centers are) one part of the property sector that can push for new development, new markets," LPC Director for Research and Consultancy Roy Amado L. Golez, Jr. told *BusinessWorld* last week.

Data centers, which house IT infrastructure like networked computers and storage systems, are expected to grow with the adoption of AI.

The Philippines is hard-pressed to speed up its adoption of AI amid its potential to improve productivity in sectors like IT-BPM (information technology-business process management), manufacturing, and healthcare.

"There's really a huge need to house the information and data that we will be needing as we move towards a more augmented AI," Mr. Golez said during a briefing last week.

The Philippines, with 73.6% of its population (around 86.98 million) using the internet, is a potential major market for data centers, according to Datareportal, a platform that provides global digital insights and trends.

However, the Philippines lags behind its Southeast Asian peers in terms of the power capacity for its data centers.

The country's current capacity is at 1.53 watts per capita, significantly lower compared to Singapore (187.67 watts/capita) and Malaysia (18.77 watts/capita).

"It's (data centers) an industry that's worthwhile to look at, and I hope that it's an industry that will also fuel the office market in the next few years," Mr. Golez said.

Meanwhile, the 2024 full-year office vacancy rate remained flat since the start of the year at 18%, according to LPC.

Vacated spaces jumped by 65% to 690,000 square meters (sq.m.) from 418,000 sq.m. last year, mainly driven by the ban on Philippine offshore gaming operators (POGO).

For 2025 and 2026, office vacancy is seen staying flat at 18%, before falling to 16% by 2027.

"Demand will continue to grow, but we will need time to be able to absorb the contractions and the new buildings that will be injected into the market next year," LPC Director for Commercial Leasing Mikko Baranda told the briefing.

Leasing demand in the office market grew by 4% to 1.1 million sq.m. from 1.07 million sq.m. despite the POGO ban.

"Government demand for office spaces increased sixfold over the past year, marking a significant milestone in 2024," Mr. Baranda said.

Demand from government offices was also the highest in seven years, accounting for 11% or 122,000 sq.m. of demand. Traditional offices had the biggest share at 44% or 492,000 sq.m., followed by the IT-BPM sector (38% or 422,000 sq.m.), and POGOs (7% or 76,000 sq.m.).

Within Metro Manila, the Bay Area recorded the largest demand for office space at 24% or 213,000 sq.m., with government accounting for 38%. This was followed by Makati City with 22% or 198,000 sq.m., and Ortigas/Mandaluyong/San Juan at 17% or 152,000 sq.m.

'SLUGGISH' RESIDENTIAL MARKET

For the residential sector, the number of Metro Manila condominiums sold dropped by 37% to 25,565 in the first eleven months of the year from 40,555 a year ago. This was the lowest recorded since the start of the pandemic, Mr. Golez said.

The number of new launches also plunged year on year by 46% to 13,226 units from 24,656 units in 2023.

Due to the slow selling pace, it would take around 34 months before the current supply of condominium units is sold, according to Mr. Golez.

"By early next year, we expect many developers to start offering new or novel or innovative schemes for the purchase of condominium units," he said. "We're already hearing more furnished units, more management, more involvement of the developers."

In the hospitality sector, Leechiu expects around 7,500 pipeline keys scheduled to open next year, according to Alfred Lay, director for hotels, tourism, and leisure at LPC. This would be led by Metro Manila (2,882 keys), Panglao Island, Bohol (936 keys), and Mactan, Cebu (869 keys).

Other issues expected to affect the hospitality industry in 2025 include the privatization of the Ninoy Aquino International Airport, the turnover of some public-private partnerships, the value-added tax refund system for tourists, recovery in source markets, and the growing interest in branded residences.

Ayala Corp. to redeem P10-B bonds next year

AYALALAND.COM.PH

AYALA CORP. has announced plans to fully redeem its P10 billion, 4.8200% bonds due 2025 on the maturity date, Feb. 10, 2025.

"The bonds shall be redeemed by payment in cash of the redemption price set at 100% of the issue price plus all accrued and unpaid interest based on the coupon date of 4.8200% per annum," the company told the local bourse on Monday.

In its notice of bond redemption, Ayala Corp. said that the payment of the redemption amount will be made to bondholders recorded as such on Feb. 6, 2025 via electronic register of bondholders maintained by the Philippine Depository & Trust Corp. as registrar.

The company noted that there must be no secondary trading of the bonds or modifications in the accounts starting on the record date. — **Sheldeen Joy Talavera**