

## RPVARA and its Stakeholders Part 2: The Impact on Consumer Demand

In the previous article, we explored how the recently enacted Real Property Valuation and Assessment Reform Act (RPVARA) will impact real estate developers. We have also seen how RPVARA will increase real property taxes (RPT) in the coming years. This time around, we will look at how this increase might potentially impact consumers in the real estate market.

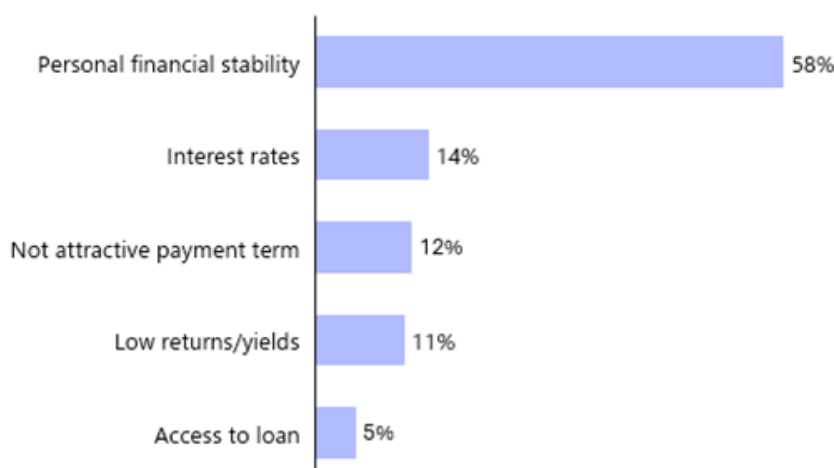
### There are other more important factors that impact residential consumer demand aside from RPT increase

To answer this question, it is important to determine what considerations drive consumer demand for real estate. In terms of purchasing residential units, personal financial stability is a top factor for most respondents according to the 2022 Colliers poll survey. The other considerations also relate to financing, particularly in obtaining the needed funds for the acquisition of the unit.

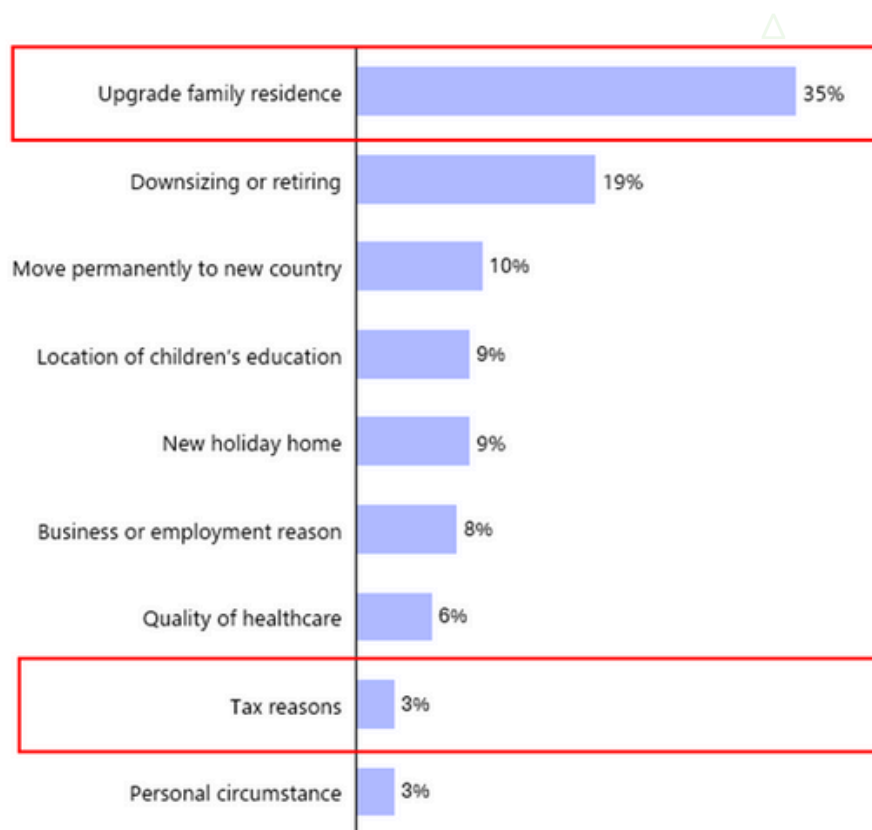
With the increase in RPT brought by RPVARA, there could also be an increase in the acquisition cost of residential property. While this could impact consumer demand due to the increased financing requirements, the increase in RPT is expected to be moderated by the 6% cap increase in the 1st year of effectivity and adjustments in the assessment levels and tax rates.

Focusing on the high-income segment, the 2021 Santos Knight Frank residential buyer survey shows that the main motivation of high-income respondents for buying a house will be upgrading the family residence while taxes are positioned at the bottom of the reasons. Having more income affords them to upgrade without being concerned about finances. It also shows that financial stability aside, tax is not a significant factor compared to other considerations such as location, accessibility and quality of life.

**Figure 1:** Factors Affecting Decision to Purchase Residential Unit



**Figure 2:** Motivations of High-Income Buyers in Purchasing a House



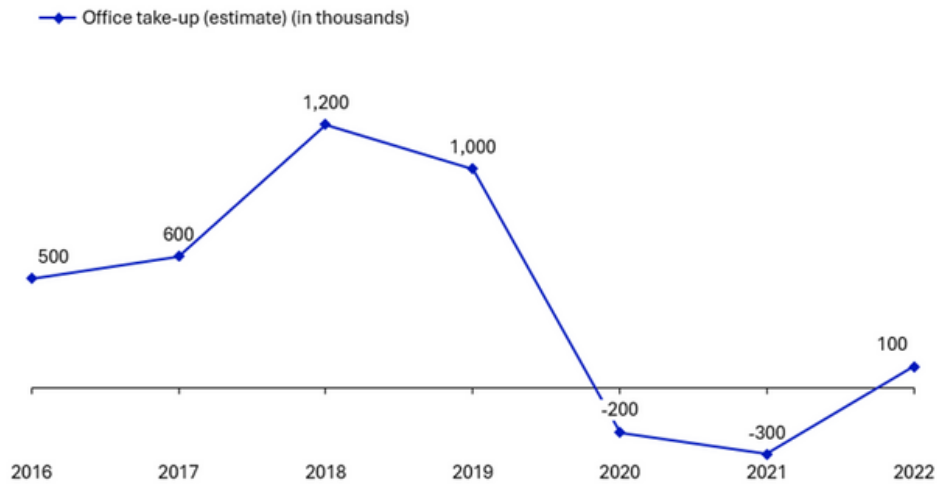
Reference: Santos Knight Frank Global Buyer Survey 2021

**Recent regulations on work-from-home arrangements influence office sector demand whereas the level of RPT is not expected to be a significant determinant of take-up**

In terms of office demand, this has been greatly affected by the pandemic in 2020 as shown below. For many companies like those engaged in business process outsourcing (BPOs), the work-from-home arrangement resulted in downsizing of office spaces. Recent changes in regulations have also impacted office demand and take-up. Last 2022, BPOs who register with the Board of Investments (BOI)

until December 31 of that year were allowed to adopt 100% work-from-home arrangement without penalties under Fiscal Incentives Review Board (FIRB) Resolution No. 26-22. Just this November 11, another tax reform bill has been passed into law. CREATE MORE Act or Republic Act (RA) 12066 now allows registered business enterprises such as BPOs to have 50% work-from-home arrangement and still enjoy tax incentives under their respective Investment Promotion Agencies (IPA). This will provide greater flexibility to companies as they can implement WFH while retaining their tax incentives without the need to register with the BOI. We expect this to further encourage office space downsizing.

**Figure 3:** Metro Manila Office Take-up

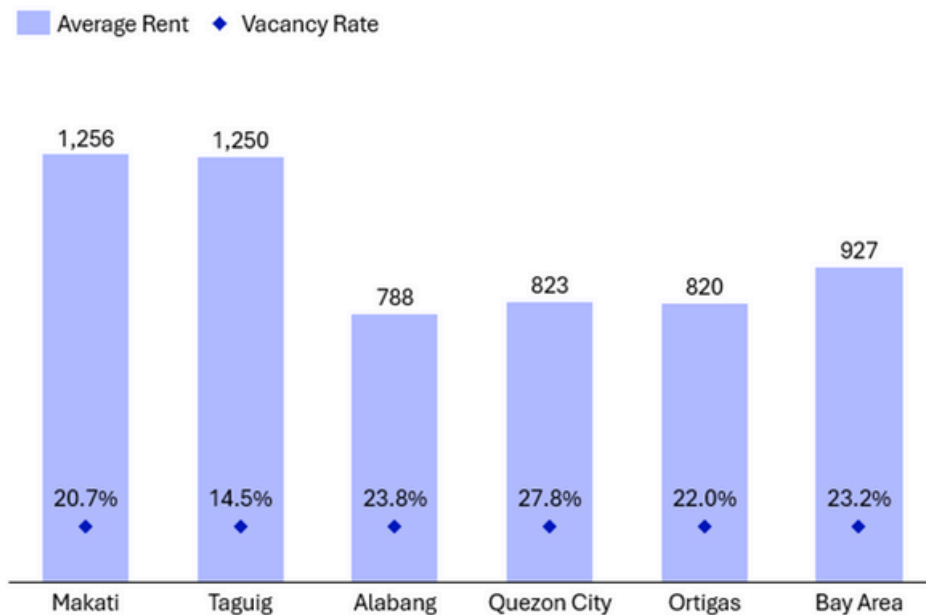


Reference: Colliers

We have seen how regulations on tax incentives impacted office demand. How about the increase in RPT from RPVARA? In the following graph, Taguig, despite having the 2nd highest average rent, has the lowest vacancy rate.

This shows that despite the higher RPT due to higher property market values, companies continue to locate in these key business districts. We therefore hypothesize that the increase in RPT brought by RPVARA will not significantly impact office take-up unlike other regulations.

**Figure 4:** Average Rent and Vacancy Rate in Metro Manila Cities



Reference: Santos Knight Frank 2024 Office Report

**Industrial segment demand depends on the needs of locators and will largely hinge on accessibility, cost and design**

For the industrial segment, our study has shown that accessibility and cost are the key considerations of tenant/operators followed by design when selecting a facility. Accessibility would mean proximity to customers and major transportation networks while cost would mean finding the best offer. We also found that demand for industrial warehouse would largely depend on specific requirements of locators. For instance, e-commerce tenants would prefer ready-built facilities while FMCGs would prefer built-to-suit or customized facilities. Hence, while tax may influence considerations of industrial warehouse tenants through rental and other costs, it will not be the main driver affecting demand.

Across the three segments, we have seen that while RPT can influence demand because of increased cost, the impact is not expected to be significant because there are more important considerations that determine take-up. From a consumer's perspective, we will now turn to the perspective of the government in the next article and look at how RPVARA could impact government revenues.

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