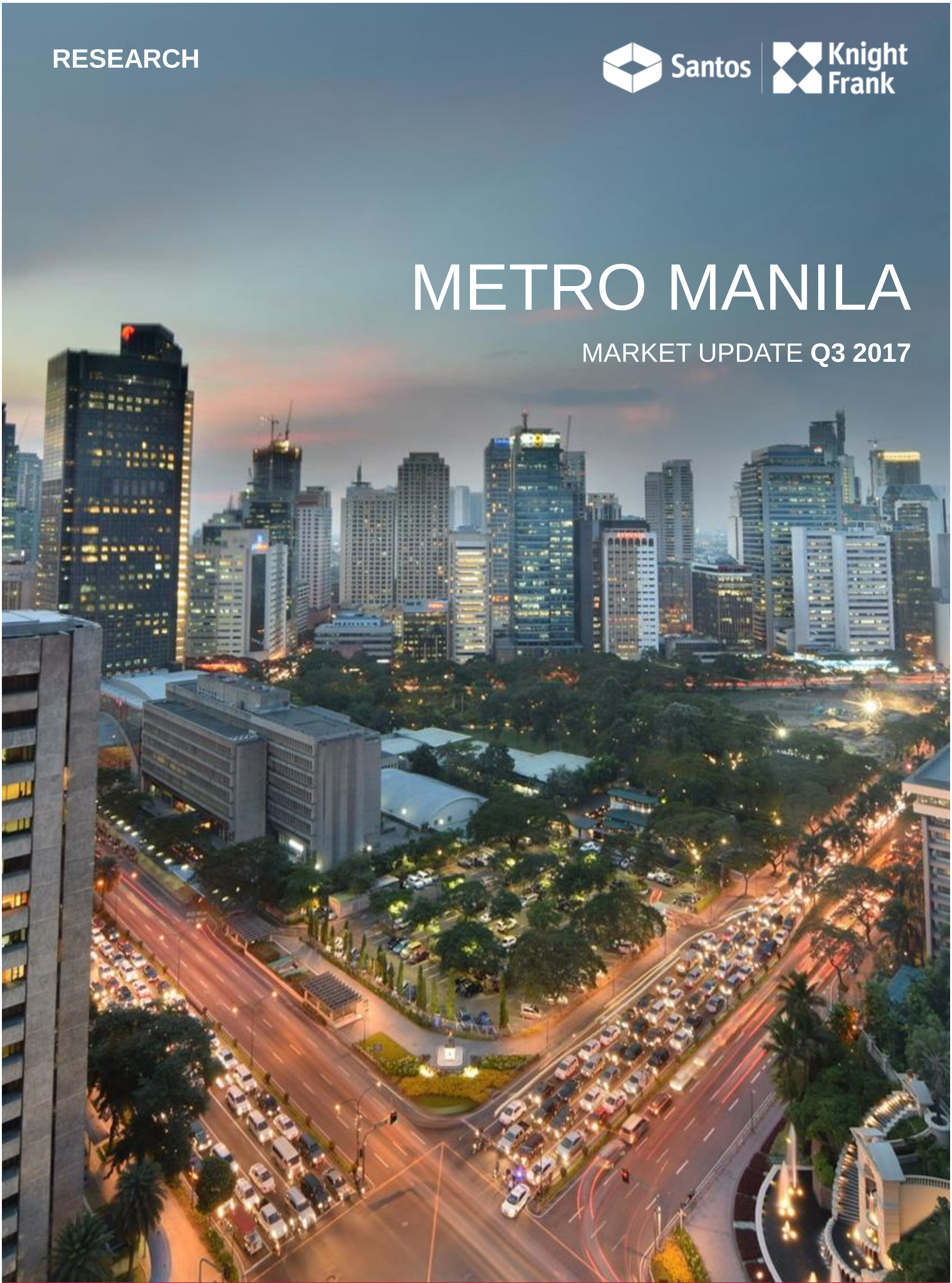
RESEARCH

METRO MANILA

MARKET UPDATE **Q3 2017**



METRO MANILA REAL ESTATE SECTOR REVIEW

MANILA: A RISING GLOBAL CITY

The recently launched *Global Cities: The 2018 Report* states that a city needs to have culture, diversity, lifestyle and opportunities necessary to draw talented people for it to be regarded as best in class. Environmental friendliness, infrastructure, walkability and public transport links are becoming important and critical elements in master planning communities and business district

Metro Manila is rapidly rising as a Global City, exhibiting characteristics evident of the world's Mega Cities all over the world.

SNAPSHOTS

Economic Indicators

6.9% ▲
GDP
Q3 2017

3.5% ▲
Inflation Rate
September 2017

1.9% ▲
OFW Remittances
Q3 2017

5.5% ▲
Avg. Bank Lending
Q3 2017

1.96% ▼
91-Day T-Bill
October 2017

50.84 ▼
Avg. PHP-USD
Q3 2017

1.) Similar to Kenya's capital, **Nairobi**, and other emerging markets, Metro Manila has a rapidly increasing population and the infrastructure is just struggling to keep pace. The Greater Manila population of about 25 Million is more than the reported number of people in Hong Kong and Singapore combined. Moreover, studies show that employee numbers have risen in key Global Cities, partly as a result of general population growth. Consequently, firms are drawn to these areas where critical mass of skilled and creative workers are available.

2.) The present administration's infrastructure program increases the attractiveness of Metro Manila to local, regional and international property investors as infrastructure integrates the different components of a sustainable development. In **Dubai**, the government has laid down plans of expanding the metro, airport and road networks. This ensures that the city can compete with the world's top tier economies. Exceptional infrastructure and quality of life are expected to draw employees and visitors to this modern, forward-looking UAE city. As in Dubai, integrated districts with easily accessible amenities and community-focused, neighborhood feel are being considered in the master planning of various developments and mixed-use projects in Metro Manila.

3.) The Bonifacio Global City (BGC) in Taguig is a success story of development, with it being the fastest emerging business district in Metro Manila. **Hong Kong** is continuously evolving with the development of new Central Business Districts (CBD) and transport links that increase connectivity within Asia Pacific.

4.) As in the case of **San Francisco**, where technology growth affected both supply and rent levels, Metro Manila office space vacancy is very low at 4.62% and rents are increasing at an average of 5 to 6% annually. Furthermore, more than half of the upcoming spaces in San Francisco is already pre-leased, so the additional leasable area will not result to oversupply. In Metro Manila, an additional stock of 3 Million square meters in the next 4 years is expected to ease the supply problem, with the presumption that the added spaces will be immediately pre-committed.

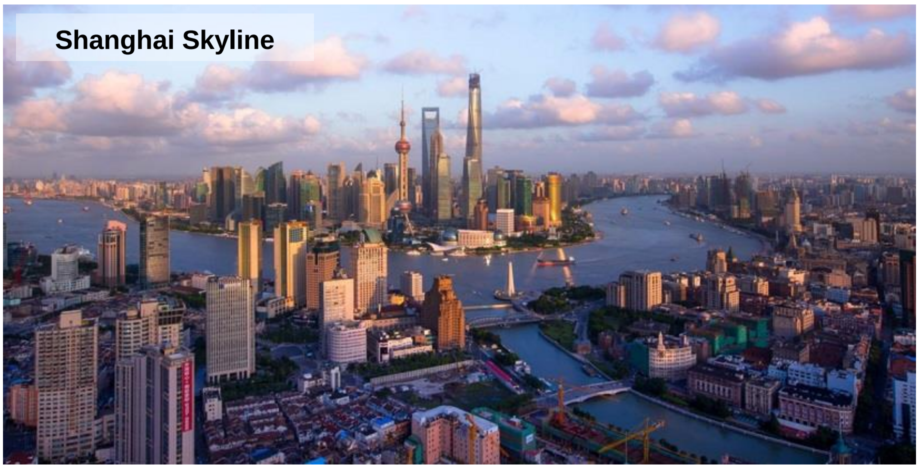
5.) Comparable to **Toronto**, the escalating prices of residential houses within Metro Manila drive buyers to purchase condominiums or properties in areas outside Manila. Metro Manila condominium prices increase at an average rate of 10% annually, signifying a growing demand.

6.) The limited supply of land and over congestion in Metro Manila are pushing property developments to areas outside the city core. In **Manhattan**, a western shift of capital pushed the city's core further west, closer to the Hudson. A significant number of employees from large, highly successful companies have migrated to less populated areas and opportunities for tenants in more diverse locations started to emerge. In evolving markets such as **Boston**, construction activity is reported to be at an all-time high and investors are focusing on fringe locations where infrastructure improvements are underway. Furthermore, a continued growth in commerce, expanding tech sector and shortage of land in the CBD of **Mumbai** resulted to new developments outside the city center.

7.) E-commerce rapidly became a key driver of the economy of **Shanghai**. A large demand of warehouses was generated from the rise of online retail and e-shopping. In Metro Manila, e-commerce is already changing and improving the local retail experience. Popular online shopping websites include Lazada, Zalora, OLX, Metro Deal, Ensogo and eBay.

8.) Flexible office markets and co-working spaces are becoming an established feature of the real estate landscape in **London** and across Global Cities. This trend has already reached Metro Manila, where occupiers are demanding flexibility in terms of building design and lease terms, high quality and heavily serviced space, and a platform for informal networking and social interaction. Moreover, student accommodation and lifestyle retail, common in London, are notable innovations that are presently lifting the Metro Manila urban environment.

Major economies and Super Cities, such as London, Manhattan, San Francisco, Paris, Tokyo and Hong Kong, are expected to continue to attract majority of the investment activities worldwide. Nevertheless, investors are likewise looking into emerging markets, such as Manila, for higher returns and less competition. In addition, the compelling mix of infrastructure, education, lifestyle, technology and real estate will make Metro Manila a place where people would want to work, shop, play and live. Hence, Metro Manila offers highly appealing growth prospects to domestic and international real estate investors, making it the ultimate rising Global City to watch out for.



Source: ambassador.sh.com

Source: viewdubai.me

OFFICE MARKET GAINS FURTHER MOMENTUM WITH THE ADDITION OF NEW SUPPLY

Office | Office market driven by aggressive construction and several building completions

Evidenced by continuous construction activities and various project launches, the Metro Manila office market remains as an attractive investment target location for both local and foreign firms. More than 220,000 square meters of additional Gross Leasable Area (GLA) has been added to last quarter's recorded office stock. This brings the total Prime and Grade A office supply to more than 4.5 Million square meters. In addition, over 3.7 Million square meters of office GLA is estimated in the next 5 years.

Newly opened office buildings in the third quarter include the office segment of Ayala Land's property in Ortigas Center. The 30th Corporate Center is a 19-storey office building with an estimated 47,000 square meters of GLA. In Mandaluyong, Rockwell Business Center's Sheridan Towers, with a total GLA of around 44,000 square meters, added office inventory to the end of second quarter remaining stock.

The Metro Manila Weighted Average Lease Rate grew by 1.6% from last quarter and 4.3% from the same period last year. Average rental rates increased more than 10% compared to the second quarter numbers in both Bonifacio Global City (BGC) and the Bay Area. Nevertheless, Makati still holds the highest asking rate of PHP1,263.15 per square meter per month, followed by BGC with PHP1,027.27 per square meter per month. The continuous escalation in rates demonstrates a robust and resilient office sector.

Vacancy in Metro Manila increased to almost 5% in the third quarter of

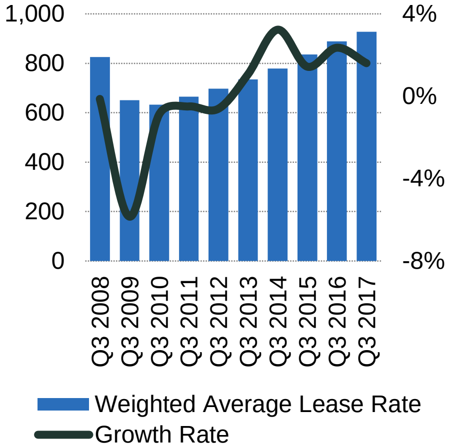
Continued on Page 8…

TABLE 1
Office Market Data Q3 2017

	Weighted Avg. Lease Rate (PHP/sqm/mo.)	Vacancy Rate
Makati CBD	1,263.15	2.65%
Fort Bonifacio	1,027.27	4.65%
Alabang	668.59	7.08%
Quezon City	777.24	10.52%
Ortigas	660.71	2.47%
Bay Area	725.43	1.02%

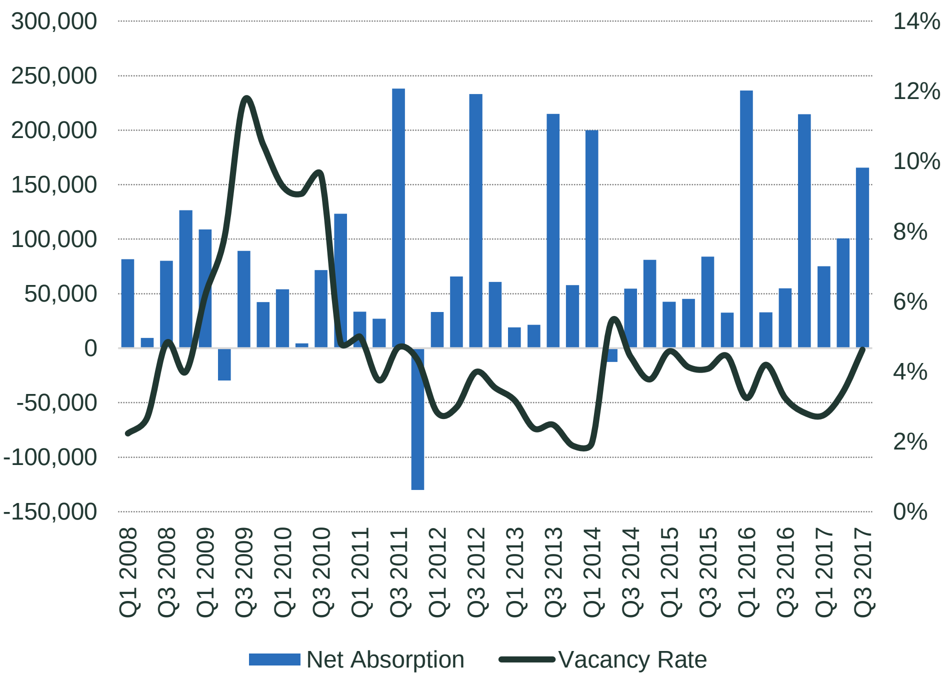
Source: Santos Knight Frank Research

FIGURE 1
Weighted Avg. Lease Rates vs. Rental Growth Rate



Source: Santos Knight Frank Research

FIGURE 2
Net Absorption (sqm) vs. Vacancy Rate (%)



Source: Santos Knight Frank Research

RESIDENTIAL SALES DEMAND STILL ROBUST, PROPERTY PRICES ON THE RISE

Residential | Supply-side pressures to challenge the rental market

The Metro Manila residential condominium sales market maintained its robustness in the third quarter of 2017 as market players continued to bank on the segment's huge investment potential. Average monthly take-up rates across central business districts (CBDs) remained strong stemming from the continuous positive inflow of remittances from overseas Filipino workers (OFWs), weaker dollar-peso exchange rate and low interest rate environment. These resulted to a higher level of purchasing power for both investment buyers and end-users.

Among the major CBDs, Taguig City exhibited the highest average monthly take-up, rising to 20 units from 12 units a year ago, and 14 units in the previous quarter. The increase in monthly take-up was mostly due to the performance of newly launched projects, particularly Park Avenue within Federal Land's Veritown Fort and Tower 1 of Avida Towers Vireo in Arca South. Furthermore, the city's location and massive construction activities, not only in real estate but also on the infrastructure side, played a huge role in leveling up its appeal to property buyers.

Ortigas and Alabang also recorded a rise in average take-up with 12 and 10 units sold per month from 8 and 3 units in the same period last year, respectively. The notable recovery of Alabang's performance originated mainly from the brisk demand for studio units, which was 55% of its total stock. Companies locating in the area, particularly in Northgate Cyberzone, sought nearby living spaces for their workers.

In contrast, the cities of Makati and Quezon both recorded a modest year-on-year (y-o-y) drop in average monthly sales with 16 and 13 units from 20 and 14 units, respectively. Condominium-specific take-up has slightly tapered off in the said cities, which is considered a normal phenomenon for a condominium's inventory selling life. At the same, the rise of alternative options in other CBDs, as well as emerging business districts, had somewhat created pressure on the performance of the cities.

For the Bay Area, covering certain areas within the cities of Pasay

Continued on Page 8…

TABLE 2

Q3 2017 Residential Condominium Sales Demand Statistics

	Units Sold (%)	Avg. Monthly Take-up (Units)
Makati City	93%	16
Taguig City	88%	20
Quezon City	80%	13
Ortigas*	74%	12
Alabang	72%	10
Bay Area	96%	**86**
METRO MANILA	**85%**	**18**

* Includes parts of Mandaluyong, Pasig, and San Juan
Source: Santos Knight Frank Research

TABLE 3

Q3 2017 Property Turnovers

Residential Condominium	Developer	Location	Inventory
Park Terraces - Tower 2	AyalaLand Premier	Makati City	**370**
Shang Salcedo Place	Shang Properties	Makati City	**525**
Viceroy - Tower 3	Megaworld Corp.	Taguig City	**304**
Studio City - Tower 3	Filinvest Land	Alabang	**450**
Avida Vita - Tower 2	Avida Land	Quezon City	**700**
Viera Residences	DMCI Homes	Quezon City	**730**
The Capital Towers - Rio Tower	Federal Land	Quezon City	**538**
One Eastwood Avenue - Tower 1	Megaworld Corp.	Quezon City	**680**
The Sapphire Bloc - West Tower	Robinsons Land	Ortigas	**352**

Source: Santos Knight Frank Research

RETAIL SEGMENT BOOMING WITH DEMAND-DRIVEN MARKET

Retail | Retail trade to drive economy further

The Metro Manila retail scene remains vigorous with the rising number of retail spaces and continuous entry of local and foreign retailers. The country's sound macroeconomic fundamentals and high property market potentials lead to increasing business and investment activities setting off the expansion of the retail industry. On the development side, property developers are aggressively searching and competing for the acquisition of limited available land within Metro Manila that could be possibly developed into mixed-use properties and lifestyle communities.

Third quarter retail space take-up was driven mostly by retailers of food and beverages and clothing apparel, comprising 46% and 25% of total retail openings, respectively. The remaining portion were under homeware, consumer electronics, department store and supermarket.

Retail rental rates in Makati, Bonifacio Global City (BGC) and Alabang slightly increased in the third quarter of the year to an estimated average rate of PHP1,534.74 per square meter per month. However, rates are expected to remain competitive considering the number of upcoming retail developments. An estimated Gross Floor Area (GFA) of more than 182,300 square meters of shopping mall space is anticipated to be turned over before yearend. Majority of the expected turnovers are located in Pasig and Bay Area. Construction completion of shopping malls and expansions are expected in the areas of Alabang, Quezon City, Makati and BGC. Ayala Malls leads the pack with most of the remaining turnovers for the year 2017, including Ayala Malls Marikina Heights, Feliz Town Center and Southvale Retail.

Another notable upcoming retail development is Sunshine Fort Landmark Mall in BGC. It is a 1.5-hectare Japanese-inspired mixed-use property, scheduled to be completed by the year 2025, and has a gross leasable area of 25,000 sqm. In San Juan, the redevelopment of Greenhills Shopping Centre into a mixed-use complex featuring residential (The Connor), office and hospitality components is on its way, starting with the reopening of the new and improved Unimart last July 2017.

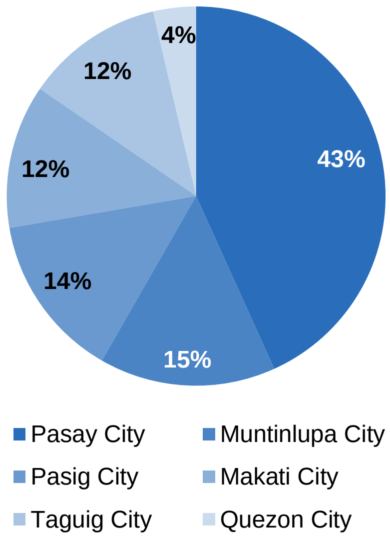
Further to the above, Metro Manila retail vacancy rate is projected to increase to at least 6% resulting from the turnover of major retail developments in the next couple of years. Renovation of existing malls to keep up with newly established competition and mall expansion will push the vacancy farther up. Vacated spaces are expected to be occupied immediately after completion due to the increased desirability following renovation.

Lastly, with the retailers now taking advantage of e-commerce, consumer spending is predicted to gather additional speed especially nearing the fast approaching holidays.

FIGURE 3
Q3 2017 Retail Openings by Sector

Source: Santos Knight Frank Research

FIGURE 4
Upcoming Retail Openings by Location



Source: Santos Knight Frank Research

MANUFACTURING STILL BOUYANT AMIDST MINOR SETBACKS

Industrial | Demand for additional spaces strengthens as opportunities in the retail scene rocket

The Philippine economy continues to flourish registering a Gross Domestic Product (GDP) growth of 6.9% in the third quarter of 2017, slightly higher compared to the previous quarter's adjusted GDP growth of 6.7%. Moreover, growth particularly in the industry sector was brought about by increasing activities in manufacturing, trade and real estate. The industrial sector posted a 7.5% growth which is highest among the sectors.

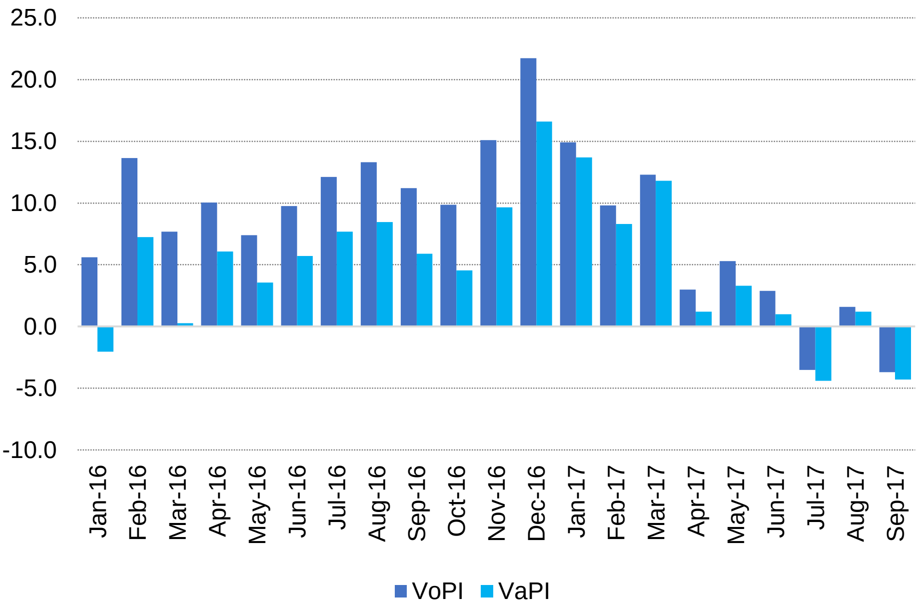
Despite the decline in the country's volume of production and value of production indices in manufacturing, which exhibited growth rates of -3.7% and -4.3%, respectively, manufacturing was recognized as the main contributor to the growth of the industrial sector in the third quarter. The significant increase in the sector coming from manufacturers of radio, television and communication equipment and apparatus and other contributors, such as chemical products, furniture and fixtures, basic metal industries and food manufacturers, offset the slowdown in the production of textiles, rubber and plastic products, tobacco, wearing apparel and petroleum and other fuel products. Industrial activities are anticipated to further rise in the coming quarters, with retail trade as one of its major drivers, following the emergence of top international firms investing in the country including the world's largest and most valuable retailer and famous online shopping site, Alibaba.

In addition, demand for warehousing and storage spaces continues to increase as a result of the dwindling supply in ecozones and other private industrial properties within Metro Manila and other major investment destinations like Region IV-A (CALABARZON) and Region VII (Central Visayas). Furthermore, prices of industrial properties remain competitive. Industrial lots have rental rates ranging from PHP25 to PHP42 per square meter per month and are selling from PHP3,300 to PHP7,000 per square meter. Rental rates of factory buildings, on the other hand, range from PHP130 to PHP350 per square meter per month, varying depending on the economic zones proximity to infrastructures.

Outlook of the industrial sector remains positive, backed by resilient business confidence, in spite of softening domestic and export demand. Moreover, further improvement in the production environment will depend on the movement of foreign exchange and the rapid completion of major infrastructure developments both inside and outside Metro Manila.

FIGURE 5

Industrial Production Growth Rate (year-on-year)



Source: Philippine Statistics Authority

Continued from Page 4 Office

the year. This, however, is mainly due to the large number of additional stock introduced during the said quarter, most of which are already pre-committed. Moreover, net absorption was higher compared to the previous quarter at more than 150,000 square meters, signifying a sustained demand for office space.

Business outlook in IT-BPM industry remains positive as more employees go from low-skill contact center jobs to mid-skilled jobs and high-skilled services, generating more than 350,000 additional contact center jobs. While news of a decreasing Business Process Outsourcing (BPO) presence in the local market circulates, Metro Manila continues to bank on its competitive labor pool and cheap labor costs. Its people remains to be Manila's secret sauce. The young demographics, and high levels of literacy and English proficiency gives Manila a competitive advantage in the global real estate playing field.

Manila's population grew more than 9.2% from 2010 to 2015. As of 2013, Manila's basic literacy was recorded at a very impressive 99.5% rate. Furthermore, 2016 records show an 86% English proficiency rate in Manila, increasing the attractiveness of locating in this rising Global City.

Continued from Page 5 Residential

and Parañaque, average monthly take-up further surged to 86 units from 51 units in the same period last year, and 70 units from a quarter ago. The brisk sales remained supported by the office, and entertainment and gaming segments boom in the vicinity.

Foreign investors likewise carried on partaking in the potential of the Bay Area as developers have reported that foreign nationals, Chinese and Koreans in particular, have been firm in maximizing their 40% ownership cap, resulting to bulk-buying. The remaining 60%, on the other hand, continued to originate from OFWs and middle-income earners.

The upswing in residential demand among majority of the Metro Manila CBDs provided enough attestation of a healthy market. The velocity of the demand is perceived to be catching up with supply albeit at a gradual pace but with enough room for property developers to increase property prices.

By classification, prices of luxury condominiums grew 28% y-o-y and currently range from PHP182,000 to PHP350,000 per square meter, while prices of high-end condominiums rose 4% y-o-y, ranging from PHP78,000 to PHP176,000. In addition, prices of middle-income and affordable condominiums increased 6% and 7% y-o-y, respectively. Middle-income prices range from PHP78,000 up to PHP176,000 per square meter, while prices of affordable units start at approximately PHP57,000 to PHP89,000 per square meter.

Quick Overview of the Rental Market

During the third quarter of 2017, a total of 3,589 residential units were launched, nearly three times higher than the 1,420 units introduced to the market in the same period last year. At the same time, property turnovers continued to recover with about 4,649 units delivered in the third quarter compared to the 1,859-unit turnovers a year ago. Majority of these units are under the middle-income classification, which is generally 64% of the total stock in Metro Manila. Moreover, 54% are in the pre-selling and construction stages.

Alternatively, the growing pool of office workers across CBDs prompted several property developers to build a chain of affordable living spaces that follow a dormitory-type concept. Seen as a next growth area, these developments began to capture the interest of companies considering the relatively cheaper and fixed rents. Additionally, they offer amenities typical of affordable or middle-income condominiums.

With the continuous influx of project launches and property turnovers, and the introduction of alternative choices for the upper-low to middle-income earners, the rental market is likely to experience a downturn that is expected to continue in the coming periods and would eventually weigh on vacancy and rental rates. However, the impact is imagined to be modest as the need for rentable living spaces proximate to workplace in CBDs continues to persist, arising from worsening traffic situation in the Metro, and additional consumable income is expected from the forthcoming tax reform approval.

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